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Washington, D.C.

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McNamara Papers

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A1993-012 Other #: 9

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Contacts with member countries: Indonesia - Correspondence 02

Contacts  
Indonesia (1972-1977)

A 1993-012  
Box 9

Folder: 2

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15

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Raymond J. Goodman *RJG*  
SUBJECT: INDONESIA - Ambassador Sjarif Thajeb

DATE: February 25, 1972

In connection with his call on you today, you may be interested in the following background information on Ambassador Thajeb (pronounced TIE-yeb):

Personal Information: In early fifties, married, has four children, Moslem, speaks English fluently. Member of distinguished family of the Province of Atjeh, North Sumatra.

Education: Graduate of Djakarta Medical College. Post-graduate work at Harvard Medical School, Temple University School of Medicine, and Indonesian Army Staff and Command School.

Previous Activities and Functions: Director of Djakarta Central Hospital. General Chairman of Armed Forces Group in Parliament, Member of Armed Forces' Political Team, Lt. General, Minister of Higher Education and Sciences, Rector of the University of Indonesia. Took part in the negotiations leading to the termination of confrontation against Malaysia and Singapore. Most recently, Deputy-Speaker of Parliament.

SMTolbert:grk

President has seen



16

## OFFICE MEMORANDUM

TO: For the Record

FROM: Raymond J. Goodman *RJG.*

SUBJECT: Minutes of Meeting with Southeast Asian Ministers of Transport and Communications (COORDCOM) and other Officials

DATE: July 18, 1972

The group of Ministers and other officials representing the countries of COORDCOM, who were visiting Washington in order to attend Transpo '72 called on Mr. McNamara on May 30, 1972. Mrs. Suparb, Mr. Luthra of the ADB and I were also present.

7/18 His Excellency, Dr. Frans Seda, Minister of Communications of Indonesia, read a summary of the attached aide memoire and presented to Mr. McNamara, on behalf of COORDCOM, Volume I of the recently published "Regional Transport Survey of Southeast Asia" prepared under the auspices of the ADB. Minister Seda said that he and his colleagues hoped they could count on the support and assistance of the World Bank in developing the transport systems of Southeast Asia and particularly in helping to bring about their closer integration.

Mr. McNamara thanked the Ministers and officials for the volume and for their kind remarks. He said he had already had an opportunity of glancing at the main volume of the Regional Transport Survey and had been impressed by its quality and thoroughness. In his view, there were no more important problems in the developing world than those connected with the better integration of the economies of particular regions; the countries of the Southeast Asian regions could count on the Bank's doing everything in its power to further this objective.

Attachment

RJGoodman/rf

President has seen



MINISTERS OR LEADERS OF DELEGATIONS

COORDINATING COMMITTEE OF SOUTHEAST ASIAN SENIOR OFFICIALS ON  
TRANSPORT AND COMMUNICATIONS (COORDCOM)

INDONESIA:

H. E. Dr. Frans SEDA  
Minister of Communications  
Djakarta

THE KHMER REPUBLIC

H.E. SONN Voeunsai  
Embassy of the Khmer Republic  
Washington, D.C.

LAOS:

H.E. Phagna Ngon Sananikone  
Minister of Public Works and Transport  
Vientiane

MALAYSIA:

H.E. Tan Sri Haji Sardon bin  
Haji Jubir  
Minister of Communications  
Kuala Lumpur

PHILIPPINES:

H.E. Eduardo Z. ROMUALDEZ  
Embassy of the Philippines  
Washington, D.C.

SINGAPORE:

H.E. Mr. Yong Nguk Lin  
Minister of Communications  
Singapore

THAILAND:

H.E. Dr. Sirilak Chandragu  
Under-Secretary of State for  
Communications acting in the  
capacity of the Minister of  
Communications  
Bangkok

✕ VIETNAM:

H.E. Bui DIEM  
Embassy of Vietnam  
Washington, D.C.

*Interim Secretary: Phay Koo Koo*  
*Asian Development Bank: Mr. K.L. Luthra*

AIDES/ADVISERS

---

INDONESIA:

Mr. S.H. Simatupang  
Special Assistant to the  
Minister of Communications

THE KHEMER REPUBLIC:

Mr. Ong Khuy Treng  
Counsellor  
Embassy of the Khmer Republic  
Washington, D.C.

LAOS:

Mr. Say Kham  
Director of Bridges and Roads  
Ministry of Public Works and  
Transport  
Vientiane

MALAYSIA:

Dr. C. L. Robless  
Deputy Director-General  
Economic Planning Unit  
Prime Minister's Department  
Kuala Lumpur

PHILIPPINES:

Mr. Carlos C. Leano  
Executive Director  
Infrastructure Operations Centre  
Manila

SINGAPORE:

Mr. Lian Hock Lian  
Deputy Secretary  
Ministry of Communications  
Singapore

THAILAND:

Mr. Amphon Tiyaabhorn  
Director of Economic Projects Division  
National Economic Development Board  
Thailand

X VIETNAM:

Mr. Nguyen Huan  
~~Counsellor~~  
Embassy of Vietnam  
Washington, D.C.

*Cong An  
First Secretary*





FIRST MINISTERIAL CONFERENCE ON  
DEVELOPMENT OF TRANSPORT AND COMMUNICATIONS  
IN SOUTHEAST ASIA

22ND-23RD MAY, 1972

DEWAN TUNKU ABDUL RAHMAN,  
JALAN AMPANG,  
KUALA LUMPUR,  
MALAYSIA

Tel:

AIDE-MEMOIRE

Ministers of Transport and Communications from the Republic of Indonesia, Laos, Malaysia, Singapore, Thailand and the Ambassadors of the Khmer Republic, the Republic of the Philippines and the Republic of Vietnam are deeply appreciative of the opportunity to meet with His Excellency Mr. Robert S. McNamara to discuss the efforts which are being made by their governments for the development of transport and communications on a regional basis in Southeast Asia. Southeast Asian governments have embarked on these efforts in order to ensure that transport development contributes effectively towards accelerated economic development and cooperation in the region.

In September 1967, a meeting of Southeast Asian Senior Officials on Transport and Communications was held in Kuala Lumpur to consider some of the measures which should be taken to promote regional develop-

ment in this field. Arising from this meeting, the Governments concerned agreed:

First, to request the Asian Development Bank to administer on their behalf the implementation of a comprehensive regional transport survey covering all modes of transport.

Second, to promote the formulation and implementation of feasibility studies for high priority projects while the regional transport survey was being undertaken.

Third, to establish a Coordinating Committee of Southeast Asian Senior Officials on Transport and Communications (COORDCOM) to follow-up the recommendations of the 1967 Meeting of Officials.

Since that time, the Regional Transport Survey (RTS) has been completed, and feasibility studies have been initiated on eighteen high priority projects in respect of roads, ports, airports, telecommunications, civil aviation and water transport; fifteen of these have already been completed. A further four projects have more recently been identified for feasibility studies. The potential order of investment of the first fifteen projects is over U.S. \$200 million.

The focal point for the coordination of the efforts of Southeast Asian Governments with respect to the above work has been COORDCOM. COORDCOM has now met on eleven occasions in the various capitals of the

region. In the process it has established good working relationships among governments concerned and laid a strong foundation for more extensive cooperation in the field of transport and communications in the future.

The cost of the Regional Transport Survey was U.S. \$3 million and was funded by the Asian Development Bank, the United Nations Development Programme and the United States Government. Assistance for eighteen feasibility studies already initiated amounting to some U.S. \$2 million was secured from the Governments of Japan, the United Kingdom and the United States. Southeast Asian Governments are appreciative of the substantial roles which these developed countries and international development agencies have played in the planning, funding and execution of the above studies.

A Conference of Southeast Asian Ministers of Transport and Communications was held in Kuala Lumpur on 22-23 May 1972 to consider and take decisions on the implementation of the recommendations in the RTS. The Conference noted that the RTS is a comprehensive study based on a systematic analysis of economic growth in the region and the required modifications and expansions of the transport networks to support efficiently these developments. The Conference recognized that the RTS is the first study of this type for the region and agreed that it was a valuable starting point for their efforts to build an integrated transport system in the region. To this end, the Ministerial Conference urged



member Governments to give full consideration to incorporating the recommendations of the RTS into the national development plans of their respective countries and directed COORDCOM to determine the feasibility of the various projects, policy and institutional recommendations in the RTS and the steps which should be taken for their planning and implementation. The Joint Communique of the Conference is attached.

In recognition of the demonstrated value of COORDCOM and the massive agenda of action in the RTS, the Ministerial Conference agreed that a permanent Southeast Asian Agency for Regional Transport and Communications (SEATAC) be set up to take the place of the five year old Interim Secretariat of COORDCOM. SEATAC will have the responsibility of helping Southeast Asian Ministers of Transport and Communications and COORDCOM ensure that the recommendations of the RTS are followed-up in an organized, systematic and integrated manner.

Southeast Asian Governments recognize that they themselves must make major efforts required for the implementation of regional action in the transport and communications field. At this stage in the development of their economies, however, they will need substantial technical and capital assistance from developed countries and international development agencies to supplement their own national and regional efforts.

To this end, they urge cognizance of the RTS and seek the support of the World Bank in their endeavors to promote the development of transport and communications on a regional basis. Southeast Asian Governments

expect to present to the Bank requests for capital assistance for such projects - on a bilateral basis in the case of national projects and on a collective basis in the case of projects involving more than one country. They are hopeful that the World Bank will play a significant role in the regional effort now gaining momentum in Southeast Asia.

Washington, D.C.  
30 May 1972

## JOINT COMMUNIQUE

The First Ministerial Conference on the Development of Transport and Communications in Southeast Asia was held in Kuala Lumpur on 22-23 May, 1972. The object of the Conference was to promote the coordinated development of transport and communications in the region.

2. Eight countries - Republic of Indonesia, the Khmer Republic, Laos, Malaysia, the Republic of the Philippines, the Republic of Singapore, Thailand and the Republic of Vietnam - participated in the Conference.

3. The Conference was attended by:-

H.E. Dr. Frans Seda, Minister of Transport,  
Communications and Tourism, Indonesia.

Mr. Var Kim Hong, Charge d'Affaires, Embassy of  
the Khmer Republic in Kuala Lumpur.

H.E. Phagna Ngon Sananikone, Minister of Public  
Works and Transportation - Laos.

H.E. Tun (Dr.) Ismail bin Dato Abdul Rahman,  
Deputy Prime Minister, Malaysia

H.E. Tan Sri Sardon bin Hj. Jubir, Minister of  
Communications, Malaysia (Alternate Leader).



H.E. Tan Sri Romeo S. Busuego, Ambassador  
Extraordinary and Plenipotentiary of the  
Philippines to Malaysia.

H.E. Mr. Yong Nyuk Lin, Minister for  
Communications, Singapore.

H.E. Dr. Sirilak Chandrangsue, Under - Secretary  
of State Acting in the capacity of the  
Minister of Communications, Thailand.

H.E. Mr. Nguyen Duy Quang, Ambassador Extra-  
ordinary and Plenipotentiary of the  
Republic of Vietnam in Kuala Lumpur.

4. The Conference was also attended by observers from:-

Australia	New Zealand	Asian Development Bank
Belgium	Norway	Economic Commission for Asia and the Far East
France	Switzerland	
Federal Republic of Germany	Sweden	United Nations Develop- ment Program
Italy		
Japan	United Kingdom	
Netherlands	United States of America	

5. The Conference was inaugurated by His Excellency the



Prime Minister of Malaysia, Tun Abdul Razak bin Dato' Hussein.

6. The Chief Delegate and Deputy Prime Minister of Malaysia, Tun (Dr.) Ismail bin Dato Abdul Rahman was elected Chairman and the Chief Delegate and Minister of Transport, Communications and Tourism, Indonesia, Dr. Frans Seda, Vice-Chairman.

I. DEVELOPMENT OF TRANSPORT AND COMMUNICATIONS IN SOUTHEAST ASIA

7. The Ministerial Conference centred its deliberations on the recently completed Regional Transport Survey which was commissioned by countries in the region and undertaken under the auspices of the Asian Development Bank. The Ministerial Conference expressed its deep appreciation to the Asian Development Bank, the United Nations Development Programme, the United States Government and the consultants involved for their substantial roles in the planning, financing and execution of the Survey.

8. The Regional Transport Survey provides an assessment of the existing transport systems in the region, an analysis of their capacities and inadequacies and a comprehensive package of recommendations on investments, policies and on institutional changes for the development of transport in the region over the next twenty years.

9. Noting that the Regional Transport Survey embodies a massive agenda of the national and regional measures required for



transportation to effectively contribute to accelerated economic development in and integration of the region, the Ministerial Conference agreed that:

- (i) member Governments be urged to give fullest consideration to the incorporation of recommendations of the Survey into the national development plans of their respective countries;
- (ii) the Coordinating Committee of Southeast Asian Senior Officials on Transport and Communications (COORDCOM) determine in detail and in consultation with member Governments concerned the feasibility and benefits of the various regional project, policy and institutional recommendations in the Regional Transport Survey and the steps which should be taken for their planning and implementation;
- (iii) COORDCOM accord priority attention to those projects relating to the pooling of information, research and training facilities, coordination of transport services, standardisation of equipment and harmonisation of action in respect of bilateral agreements with outside interest in the transport field;



- (iv) COORDCOM take steps to promote implementation of those projects where feasibility studies have been completed and projects which require expansion of capacity by 1975;
- (v) COORDCOM keep under continuous review the perspective of the Regional Transport Survey and recommend on the project, policy and institutional implications involved so as to enable the Survey to serve as a basis for the continuing efforts of the region in transport development.

## II. FRAMEWORK FOR COOPERATION

10. At the meeting of Southeast Asian Senior Officials on Transport and Communications, held in Kuala Lumpur, in September 1967, a Coordinating Committee was established to follow-up on the recommendations of the meeting with respect to measures for the coordination of transport and communication development and for securing external assistance for high priority projects. An Interim Secretariat to service COORDCOM was set up by the Malaysian Government with the financial cost involved being first provided by the Malaysian Government and the U.S. Government and later shared by member Governments in the region on a pro-rata basis.

11. Noting the demonstrated value of COORDCOM in



facilitating regional action in the transport and communications field, the Ministerial Conference agreed that the focal point for their efforts in this field will continue to be the COORDCOM. The Ministerial Conference further agreed that Southeast Asian Ministers of Transport and Communications should meet from time to time to exchange views and to review the work and recommendations of COORDCOM.

12. To ensure effective servicing of COORDCOM and the Meeting of Southeast Asian Ministers of Transport and Communications, the Ministers agreed to establish a permanent Secretariat of COORDCOM with responsible officers as early as possible. It requested COORDCOM to determine the detailed functions, organisation, personnel requirements, staffing and funding of the Secretariat. The Secretariat, to be known as the Southeast Asian Agency for Regional Transport and Communications Development (or for short SEATAC), will have the following broad responsibilities.

- (a) to follow up on all regional projects and programmes, policies and institutional recommendations covered by the Regional Transport Survey and/or sponsored by the Southeast Asian Countries;

- (b) to maintain on a continuing basis information on the status of 'umbrella' projects and to promote collective action in respect of planning, implementation and operation;
- (c) to work with member Governments and interested international development agencies in establishing and maintaining a central information system on developments in the transport and communications field in Southeast Asia such that the Meeting of Southeast Asian Ministers of Transport and Communications and COORDCOM will be in a position to:-
  - (i) monitor the implementation of the Regional Transport Survey;
  - (ii) identify priority projects for detailed study and implementation;
  - (iii) process regional projects and programmes for consideration of the Meeting of Southeast Asian Ministers of Transport and Communications and COORDCOM;
  - (iv) work with the Government in preparing regional projects for foreign financing;



(v) update ~~from~~ time to time the data, assumptions and analytical base of the Regional Transport Survey.

13. The Ministerial Conference noted with appreciation the offer of the Government of Malaysia to host the Secretariat of COORDCOM and to provide the first Director for the Secretariat. The Ministerial Conference expressed its appreciation of the offers by the Asian Development Bank, the United Nations Development Programme and the United States Government to assist in the funding of the technical work of the Secretariat.

### III. INTERNATIONAL COOPERATION

14. The Conference affirmed that, as in other fields of development, the efforts required for the implementation of the projects, policies and institutional reforms for bringing about the establishment of a sound and efficient transport and communications system in Southeast Asia will have to originate from within the countries of the region themselves. However, in the light of their limited financial and technical resources at this stage in the development of their economies, the Ministerial Conference invited positive international cooperation to supplement their own efforts. To this end, the Ministers and their officials who will be attending Transpo '72, the International Transportation Exposition, will take the opportunity of their presence in

Washington, D.C. from 26th May to 2nd June to explore with the World Bank, the United Nations Development Programme, the US Government and the US Export-Import Bank, the role ~~which~~ that Government and those agencies could play in assisting the development of transport and communications in the region. The Ministerial Conference also agreed that it hopes to undertake similar explorations with other developed countries and international development agencies at appropriate times in the future.

15. Since 1969, external technical assistance has been received through COORDCOM for seventeen regional projects studies amounting to US\$1.8 million. Fifteen of these studies have now been completed and these will lead to project investments of over US\$200 million, a part of which is already being financed with assistance from international development agencies including the Asian Development Bank and the World Bank. The Ministerial Conference expressed its deep appreciation for the technical and capital assistance which has already been received.

#### IV. APPRECIATION

16. The deliberations at the Conference were held in a frank and cooperative atmosphere. The Conference drew satisfaction from the deep interest shown by Member Governments in promoting regionalism in their efforts in the transport and communications field. The Conference was also appreciative of the cooperative attitude and support of the develop countries and international

development agencies, which were represented by observers in the Conference.

17. The Ministers expressed their sincere appreciation to the Government and people of Malaysia for their warm and generous hospitality and the efficient service and facilities provided at the Conference.

Kuala Lumpur

23rd May, 1972



899  
OFFICE MEMORANDUM

TO: Mr. Anders E. E. Ljungh

FROM: Douglas J. Fontein *DJF*

SUBJECT: Visit of Southeast Asian Ministers of  
Transport and Communications and members  
of COORDCOM

DATE: May 9, 1972

Under the auspices of USAID a group of Southeast Asian Ministers of Transport and Communications, together with members of the Coordinating Committee of Southeast Asian Senior Officials on Transport and Communications (known as COORDCOM) will visit Washington from May 25th to June 3rd. A tentative list of members of the group and a preliminary schedule for their visit is attached.

As its full name indicates, COORDCOM was established to coordinate preinvestment studies and investment projects in transport and communications being undertaken in the countries concerned (Indonesia, Khmer Republic, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam). Its Secretariat is located in Kuala Lumpur. So far it has sponsored twentytwo feasibility studies for transport and communications projects, fifteen of which have been completed, three of which are underway and four of which are still to be undertaken. COORDCOM has received financial assistance from the UNDP, the Asian Development Bank and the US Government. A ministerial meeting will be held in Kuala Lumpur on May 22nd and 23rd to decide on follow-up actions on the recently published, ADB sponsored Regional Transport Survey and on the future role of COORDCOM and its Secretariat.

We have been asked by USAID and the COORDCOM Secretariat to arrange for meetings at the working level to explore possibilities of financing some of the studies and projects being sponsored by COORDCOM and of technical assistance to COORDCOM and its Secretariat. We are planning to arrange for such a working-level meeting in consultation with the Transportation Projects Department and other project departments involved on Friday, June 2.

In addition, we have been asked whether it would be possible for the ministers who will be in Washington and who will total about eight in number, to pay a courtesy call on Mr. McNamara on Tuesday, May 30. I would think a meeting of not more than 15 minutes duration would be enough. I should be grateful if you could let me know whether such a courtesy call on Mr. McNamara would be possible.

Attachments:

DJFontein:gwh

cc: Mr. Knox  
Mr. Wiener  
Mr. Sadove  
Mr. Fuchs  
Mr. Goodman  
Mr. Street

President has seen

UNITED STATES GOVERNMENT

# Memorandum

TO : See Distribution

DATE: May 5, 1972

FROM : Kenneth M. Rabin, SA/RD *KMR*

SUBJECT: Preliminary Agenda for Transpo and COORDCOM Participants From Southeast Asia.

The attached list identifies officials of Southeast Asia for whom appointments and other arrangements have been made for the period May 25 through June 2. As modifications are made, the respective desks will be notified.

The tentative agenda is quite full and does not at this time provide for visits to A.I.D. Such visits may be impossible except for representatives from Vietnam, Laos, and Cambodia. If discussions with A.I.D. offices are requested, we will contact the appropriate officers as soon as possible.

Distribution:

CO/SA: Mr. O'Connor  
AA/ASIA: Mr. MacDonald  
CO/SA: Mr. Nooter  
SA/ENGR: Mr. Vogel  
SA/TCD: Mr. Johnson  
SA/T: Mr. Morgan  
SA/T: Mr. Kent  
SA/L: Mr. Levin  
SA/C: Mr. Silver  
SA/TCD: Mr. Fossum  
SA/TCD: Mr. Collins  
SA/OVA/O: Mr. Gordon  
ASIA/EA/CDF: Mr. Taubenblatt  
ASIA/NCD: Mr. Lustig  
ASIA/KPA: Mr. Shook  
ASIA/I: Mr. Shakow





May 5, 1972

SUBJECT: List of Ministers of Transportation/Communications and COORDCOM Officials Visiting Washington, D.C.

Herewith is the tentative list of Ministers of Transportation/Communications and COORDCOM officials who will be visiting Washington, D.C. for TRANSP 72; Ministerial briefings and COORDCOM Meeting:

INDONESIA:

- 1. Franz Seda, Ministry of Communications.
2. IR. Tabiat, Director General Maritime Industries
3. IR. Suhartojo, Director General for Basic Industry

LAOS:

1. Ngon Sananikone, Minister Public Works and Transportation.
2. Say Kahm, Director of Highways, Ministry of Public Works and Transportation.
3. Phak Savan, Director General, Ministry of Public Works and Transportation

MALAYSIA:

1. Tan Sri Sardon Haji, Minister of Communications
- 2. C.L. Robles, Deputy Director General, EPU PM's Dept.
3. K. Pathmanaban, Assistant Secretary EPU
4. Bashan Bin Nordin, Assistant Secretary, Min. Trans.
5. Phang Kon Hee, Secretary of COORDCOM

PHILIPPINES:

1. Apolinario Orosa, Director General, Presidential Economic Staff (PES)
2. Alfredo Kagawan, Trans, Consultant, PES
3. Vicorino Basco, Director Trans and Communications PES
4. Carlos Leano Jr., Exec Director Infrastructure OPS Centre
5. Alejandro Melchor, Exec. Sec. President Marcos Office
6. Jesus Sunga, Director Infrastructure Programs and Project Office.

VIETNAM:

1. Tran Van Vien, Min. Comm. and Posts
2. Long Ngoc Than, Sec. Gen., Ministry of Communications

THAILAND:

1. Dr. Sirilak Chandransu, Under Secretary State for Communications
2. Aree Satayamana, Deputy Under Secretary State Ministry Communications
3. Amphon Tiyabhren, Chief, Trans and Communications
4. Klongwathanakith Pravit, Budget Officer, Budget Office



KHMER REPUBLIC:

While no one indicated Phlek Chaat, Minister for Plan. or Ky Tang Lim, Minister of Public Works may attend. Otherwise Ambassador or member from Khmer Embassy, Washington will attend TRANSPO 72.

Singapore:

Young Nyuk Lin: Minister for Communications

Lian Hock Lian: Deputy Secretary Ministry of Communications

Date: May 4, 1972

SUBJECT: Preliminary Schedule of Visit of Southeast Asian Ministers of Transport/Communications and COORDCOM Officials

MINISTERS

COORDCOM OFFICIALS

May 24, (Wednesday)

Ar. Los Angeles

Ar. Los Angeles

May 25, (Thursday)

10:00 a.m. Dep. Palmdale

10:00 a.m. Dep. Palmdale

(1) 5:00 p.m. Ar. Dulles Airport

(1) 5:00 p.m. Ar. Dulles Airport

Evening free

Evening free

May 26, (Friday)

(2) 10:30 - 12:00 a.m. TRANSPO 72  
opening ceremony at Dulles  
Airport

(2) 10:30 - 12:00 a.m. TRANSPO 72  
opening ceremony at Dulles  
Airport

Secy. Volpe's reception at TRANSPO 72

Secy. Volpe's reception at  
TRANSPO 72

VIP Tour of TRANSPO 72

VIP Tour of TRANSPO 72

(3) 7:30 - 9:30 p.m. Reception  
National Aviation Club

\*Evening free

May 27, (Saturday)

8:00 - 9:00 a.m. Private visit to  
White House

8:00 - 9:00 a.m. Private  
visit to White House

(4) 6:30 - 8:30 p.m.  
State-DOT Reception  
Diplomatic Reception Room  
State Dept. Bldg.

(4) 6:30 - 8:30 p.m.  
State-DOT Reception  
Diplomatic Reception Room  
State Dept. Bldg.



MINISTERS

May 28, (Sunday)

Free Day

May 29, (Monday - Memorial Day)

Morning - Afternoon Free

- (5) 6:30 - 9:00 p.m.  
Mrs. Chennault's Dinner  
Georgetown Inn

May 30, (Tuesday)

- (6) 9:00 - 10:00 a.m.

Courtesy call Secy. Volpe

- (7) 3:30 - 4:30 p.m. (Tentative  
Meeting with Mr. McNamara  
World Bank

- (8) 6:30 - 8:30 p.m.  
Malaysian Embassy Reception  
Ambassador's Residence

May 31, (Wednesday)

- (9) 10:00 - 12:00 a.m.  
Export - Import Bank Discussion

12:00 - 13:30 p.m.  
Luncheon Ex-Im Bank

Reception by A.D. Little

COORDCOM OFFICIALS

Free Day

Morning - Afternoon Free

\*Evening Free

\*Morning - Afternoon Free

- (8) 6:30 - 8:30 p.m.  
Malaysian Embassy Reception  
Ambassador's Residence

- (6) COORDCOM Meeting  
Greeting by DAS Hazard  
Hqs DOT Building

Working Session

Luncheon at DOT

Working Session

Reception by A.D. Little

MINISTERS

June 1, (Thursday)

- (7) 10:00 - 12:00 a.m.  
Meeting with Officials of UNDP  
World Bank Building

- (10) TRANSPO 72 Reception/Banquet  
Sheraton-Park Hotel

6:30 p.m. Reception, Exhibit Hall  
7:30 p.m. Banquet Ballroom  
(Black tie)

June 2, (Friday)

\*Free Day

June 3, (Saturday)

Dep. Washington, D.C.

COORDCOM OFFICIALS

- (6) COORDCOM Meeting at DOT  
Working Session  
Lunch at Hogates Restaurant  
(Northrop Corp)  
Working Session

- (10) TRANSPO 72 Reception/Banquet  
Sheraton-Park Hotel

6:30 p.m. Reception, Exhibit  
Hall  
7:30 p.m. Banquet Ballroom  
(Black tie)

- (7) 10:00 a.m. - 4:00 p.m.

Meeting of COORDCOM Officials  
and IBRD Country Team Members  
IBRD Building

\*Evening Free

Dep. Washington, D.C.



17

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 15, 1973

FROM: Raymond J. Goodman *RJG*SUBJECT: INDONESIA: Visit of Dr. Mohamud Sadli, Minister of Mines

Dr. Sadli, accompanied by the Indonesian Ambassador, called on Mr. McNamara on June 14. Mr. Knapp and I were also present.

Dr. Sadli raised two issues:

Mining Sector

6/18  
He mentioned the proposal of P.T. Pacific Nikkel to exploit deposits of nickel on a small island off the coast of West Irian, and its claim that in order to be viable the project would require long term loans for the infrastructure amounting to perhaps \$100 million out of a total investment of some \$550 million (including \$135 million of equity). In other mining ventures the Government had insisted that the sponsors provide all the finance, including the cost of infrastructure, but was now inclining to the view that if the project could clearly not go ahead without long term finance of the kind that export financing agencies do not normally provide they would not close the door to the possibility of using official aid. He asked for Mr. McNamara's comments on this point.

Mr. McNamara said he could only offer a comment in principle since he did not know anything about the merits of the particular proposal. To justify Bank assistance, two conditions would have to be met:

(1) The project was clearly beneficial to Indonesia, and (2) appropriate security or guarantees were given by the sponsors to ensure the service of a Bank loan. Assuming both conditions were met, and the Government wished us to do so, we would consider the project. Mr. Knapp added that the Government could either take responsibility for providing and financing the infrastructure, with some appropriate form of undertaking from the sponsors that would ensure service of the loan, or it could insist that the sponsors themselves provide the infrastructure and assume the Bank loan. A Government guarantee would be required in either case. Dr. Sadli said that, inasmuch as this would not be a joint venture, he thought that the latter method would be preferable.

Oil Sector

Dr. Sadli referred to the new measures designed to supervise PERTAMINA, the national oil company, and ensure that it did not incur debt without the knowledge and approval of the Government. While he could not yet be sure that these measures would be fully effective, he was reasonably hopeful. Firstly, General Ibnu Sutowo, PERTAMINA's president, was now closely associated with the Board of Supervisors thus bridging a communications gap that had previously existed. Secondly,

President has seen



the General realized that he could no longer rely on the kind of short term, high interest type of money he had previously borrowed to finance PERTAMINA's activities but needed access to international capital markets on an orderly basis. Loans extended or under consideration by foreign banks or by the U.S. Eximbank meant that PERTAMINA had to submit to close scrutiny and questioning, and this was a healthy development. The new arrangements between the Board of Supervisors and the management of PERTAMINA involved a process of mutual education during which, among other things, he and his colleagues on the Board could teach the General some elementary economics about the opportunity cost of capital.

Mr. McNamara said he was glad to hear of these measures. He had been very disturbed by the facts about PERTAMINA reported to him earlier in the year, which had raised serious questions in his mind as to whether the Bank group could go on assisting Indonesia. He considered it to be of great importance that the Government control the indebtedness of its agencies and insure that the money was put to good use.

Postscript: After the meeting Dr. Sadli said to me that he hoped the Bank would be able to advise him on the point raised by Mr. McNamara about the nickel project namely whether the benefits of the project for Indonesia were likely to be satisfactory, and also whether 30 year money was really needed for the infrastructure rather than the 15 year money that might be available from Eximbank or elsewhere. This morning Mr. Goodwin of U.S. Steel called me, at the suggestion of Dr. Sadli, and will arrange to send the information we would need to make a desk study of these questions

cc: Mr. McNamara's office  
Mr. Knapp  
Mr. Fuchs  
Mr. Sandberg

RJGoodman/rf

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 13, 1973

FROM: Raymond J. Goodman *RJG*SUBJECT: INDONESIA - Meeting with Dr. Mohamud Sadli, Minister of Mines

A meeting with Dr. Sadli has been arranged for Thursday, June 14, at 5.30p.m. A short biographical sketch is attached.

We understand that Dr. Sadli is in the U.S. primarily for discussions about the proposed reduction in the U.S. tin stockpile. During his call on you, which is principally a courtesy call, he may raise two questions: (a) the efforts by the Indonesian Government to control Pertamina (the national oil company), of whose Board of Supervisors he is Chairman, and (b) the possibility of Bank Group lending for enclave projects in the mining sector. The following are brief notes on these subjects:

6/10  
(a) Pertamina - You will recall that the Indonesian representatives to the last IGGI meeting in Amsterdam in early May assured the members of the IGGI that steps were being taken to bring Pertamina under control and to avoid a recurrence of last year's heavy borrowing by Pertamina. These included establishment in the Ministry of Finance of a special unit to oversee Pertamina and to provide the staff needed by the Board of Supervisors to carry out its task. There would also be monthly consultations between the Ministries of Finance and Mining, Bank Indonesia and Pertamina.

There are indications, as yet unconfirmed, that Pertamina has been borrowing substantial amounts to purchase ships. While this information is not hard enough to be mentioned to Dr. Sadli, it would be well if you could let him know how seriously you viewed last year's affair.

(b) Bank Group financing of enclave projects in the mining sector - Some months ago the sponsors of a large nickel project in West Irian, to be carried out by a company known as P.T. Pacific Nikkel, Indonesia (U.S. Steel, Hoogovens N.V., and Newmont Mining Corporation are the main participants) approached you about the possibility of Bank financing for their project and you suggested that they talk to me. I informed them of the arrangements we have made in the past to finance the infrastructure for projects of this type, (e.g. Boke) and outlined the kind of undertakings that they would be expected to enter into in such a case.

During my recent visit to Indonesia, I mentioned to Prof. Widjojo and Dr. Sadli the possibility of the Bank financing enclave projects in the mining sector, without discussing the merits of this particular project. The Ministers said that they would think about it and Dr. Sadli may want to discuss it further with you.

President has seen



Mr. Robert S. McNamara

- 2 -

June 13, 1973

The sponsors of Pacific Nikkel have been in touch with IFC and the Bank several times during the past year, and we have a fair knowledge of their proposal. One important question in our minds has been whether the deal would offer sufficient benefits to Indonesia to warrant GOI, or us, considering it without substantial modification.

attachment:

BGSandberg/RJGoodman:grk

Biographical Summary: Mohammed Sadli, Minister of Mines

Born June 10, 1922, West Java.

Degree in Engineering at the Gajah Mada University.

M.Sc. (Engineering Economics), M.I.T.

Doctorate in Economics, University of Indonesia.

Postgraduate work in Strategic Studies at the Center of International Affairs, Harvard University.

Professor at the Faculty of Economics, University of Indonesia, Jakarta.

Deputy Rector of the University of Indonesia.

Member of the Economic Advisory Team to the President.

Chairman of the Technical Committee on Investment.

Minister of Manpower in 1972.

Minister of Mines since March 29, 1973.

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MEMORANDUM FOR THE RECORD

Visit of General Sutowo, head of Pertamina, Indonesia, July 24, 1973

Present: Messrs. McNamara, Knapp, Sutowo, Indonesian Ambassador Thajeb, and Colonel Benson, Washington representative of Pertamina

The General mentioned the ExImBank loan recently obtained for an oil storage installation and future projects in natural gas. He said that the current revenue in 1974 will be \$2 billion from oil.

Mr. McNamara said that he was unhappy that Indonesia had violated the agreement regarding borrowing limits during the past year. This is serious since a repetition would probably lead to a drying-up of concessional aid, and the World Bank which had spearheaded the massive support provided for Indonesia is not able to certify a government which does not live up to its agreements. He also stressed the importance of management for a rapidly expanding organization such as Pertamina. He asked whether the General felt that the financial controls were adequate in Pertamina. The General replied to the affirmative and commented that most of the expansion takes place under the management of foreign companies anyway.

Mr. McNamara asked about the outlook for oil prices and the General replied that he estimated that the price five years hence would level off at about \$5.00 per barrel f.o.b. country of origin, as compared to a present price of \$3.80. In terms of natural gas Indonesia knows what it has but not yet what it can sell. The Japanese are currently considering buying 600,000 cubic feet per day and has started negotiating with a request for 1.5 million cubic feet per day.

Mr. McNamara asked about other projects of Pertamina's and the General said that there is a steel complex being constructed with the aid of the Soviet Union. Natural gas will be used in a direct reduction process.

In response to Mr. McNamara's question, the General said that Pertamina currently has 40,000 Indonesian employees and only a few foreigners, mostly in a consulting capacity.

Mr. McNamara asked which of the foreign oil companies the General felt were easiest to deal with and the General said that all companies were working effectively but that Caltex was way ahead in terms of production since it had been in Indonesia the longest.

Mr. McNamara asked about the rice situation. The General conceded that imports are large and prices are high. This year's rainy season crop seems to be adequate but the dry season crop is still uncertain. The Ambassador added that prices are high, stocks are low and imports will have to continue at a high level. Current imports are estimated at 800,000 tons for 1973 and the next year will require some 500,000 to 600,000 tons. The Government is considering a rice estates project outside Java where land is still available. The project will be highly mechanized and therefore require skilled manpower and not cause a massive migration of population. The Government is considering joint ventures with foreign companies in this regard. Mr. McNamara said that poor crops this year could result in a very serious situation in view of the shortage in previous years and the low stocks. At least price speculation would be very predominant.

AL  
July 25, 1973

President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: David L. Gordon, Director Resident Mission, Indonesia

SUBJECT: INDONESIA - Your meeting with General Ibnu Sutowo

DATE: July 24, 1973

3/24

1. I am glad that General Ibnu Sutowo will have a chance to meet with you. As you know he is one of the most important and influential personalities in Indonesia, with operational powers, interests and connections that rival - even overshadow - those of the top officials responsible for economic policies and programs, who nominally control his activities. You are also well aware of the basic issues raised by the magnitude and nature of external borrowings by Pertamina (which is synonymous with General Ibnu) last year, and the evident inadequacy of Government knowledge and supervision of these transactions.

2. I have just seen Mr. Street's memorandum of July 23. I have no disagreement with it but would like to make a few supplementary points.

3. General Ibnu's strength in the Indonesian picture derives from several factors:

- (a) The preponderant importance of oil in the Indonesian economy and Pertamina's role as sole agent of the Government in oil related negotiations and operations.
- (b) Pertamina's vast (by Indonesian standards) current and prospective cash flow and its independence of Government budgetary procedures and constraints, which give it unique freedom and flexibility in financial transactions.
- (c) Ibnu's personal imagination and drive, his record of achievement in encouraging Indonesian oil development and the prestige reflected from his relations with the international oil tycoons. He symbolises success and prestige for Indonesia in relation to other (especially industrial) countries, for which the country's psychic need is great.
- (d) Past and anticipated favors from him (or Pertamina) to the President, the Army, various provincial and local authorities and religious or charitable bodies.

4. Pertamina's gross transgression of the borrowing limit agreed by Government with the IMF last year evidently caused shock and serious concern to the President. Measures designed to enforce effective Government control on Pertamina were adopted, apparently in good faith. Their practical effectiveness, however, is open to question in view of the lack of proper financial accounts and of Government staff qualified to analyze such accounts as do exist. The technocrats who make up Pertamina's Supervisory Board apparently are given access to all the information they

President has seen



request, but they have neither time nor staff to define their requirements or properly analyze the data provided. At the same time they are hesitant to solicit foreign technical assistance in the review of Pertamina's operations - given the sensitivity of the national oil sector, and their own vulnerability, to allegations of foreign interference.

5. General Ibnu's attitude towards investment is that of a daring shoestring operator (which he was), mortgaging his future prospects to the hilt to finance every potential profitable opportunity that presents itself. The rapid expansion of Indonesian oil production (and especially of revenues, due to dramatic price increases) have enabled him to avoid serious trouble so far. But the scale of his presently planned investments - including, an addition to those mentioned in Mr. Street's memorandum, a major basic steel development project - could entail greater problems. Many, perhaps most, of the pending projects probably have merit, but none appear so far to have been subjected to any solid independent evaluation - nor is the Government at present capable of evaluating them satisfactorily. Certainly their contribution to the Indonesian economy as a whole, in relation to other non-Pertamina investment proposals, has been considered hardly at all.

6. Unfortunately, the issue on which attentions focused earlier this year - the breach of the borrowing ceiling agreed with the IMF - was posed in far too narrow terms. The Fund's arbitrary definition of external borrowings subject to the ceiling - i.e. with maturities between one and fifteen years - makes it possible for Pertamina to comply with the new stand-by agreement merely by arranging 15<sup>1</sup>/<sub>2</sub> - year maturities for its largest new commitments; and the Fund has made quite clear its unconcern with the economic merits or yields of the corresponding investments, so long as the global limits, so defined, are observed.

7. You may feel it opportune

- (a) to express gratification at the success and dynamism of Indonesia's oil development under General Ibnu's leadership;
- (b) to stress the need for highly sophisticated accounting, financial analysis and controls, both in Pertamina's overseeing of its foreign partners and in its own operations, now that it is emerging into the big leagues; and
- (c) to sympathize with Ibnu's aspirations for rapid growth, provided that his investments (and the borrowings on which they are based) are carefully analyzed in relation to other Indonesian national needs and resources.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 23, 1973

FROM: Gordon M. Street, East Asia & Pacific Department  
*M. Street*SUBJECT: INDONESIA - Your Meeting with General Ibnu Sutowo

1. We have prepared this memorandum on the oil sector and Pertamina for your meeting with General Sutowo on July 24. I attach a recent Fortune magazine article containing information on the company, biographical data on General Sutowo and memoranda prepared last week on Pertamina's proposed investments in an oil depot in South Sumatra and a refinery in Central Java.

The Oil Sector

2. In 1972 the petroleum sector continued to be the leading economic sector in terms of export earnings, tax revenues and investment. Expenditure on oil exploration and development are increasing rapidly, indicating that the oil sector will be even more significant during the coming years:

Economic Position of Petroleum Sector

(Value in \$ million)

	<u>1971/72</u>		<u>1972/73</u>		<u>Estimated 1973/74 a/</u>	
	Value	Percent	Value	Percent	Value	Percent
1. Gross exports, fob	<u>1,307</u>	(100)	<u>1,835</u>	(100)	<u>2,276</u>	(100)
Petroleum	<u>545</u>	(45)	<u>971</u>	(53)	<u>1,408</u>	(62)
All Other	<u>762</u>	(55)	<u>864</u>	(47)	<u>868</u>	(38)
2. Total Tax receipts	<u>1,039</u>		<u>1,382</u>		<u>1,617</u>	
Petroleum	<u>347</u>	(33)	<u>581</u>	(42)	<u>770</u>	(48)
All Other	<u>692</u>	(67)	<u>801</u>	(58)	<u>847</u>	(52)
3. Petroleum exploration/development expenditures by	-		<u>634</u>		<u>737</u>	
(a) Foreign Contractors	233		271		455	
(b) Pertamina	NA		363 b/		282 c/	

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a/ Data supplied by GOI

b/ Based on foreign borrowing during the year.

c/ Data supplied by Pertamina during April IMF Stand-by negotiations.

President has seen



July 23, 1973

3. In 1972 Indonesia's crude oil production increased by 22 percent over 1971 to a record 395.6 million barrels, equivalent to almost 1.1 million barrels/day (b/d). Accounting for about two percent of total world crude oil production and reserves, Indonesia has maintained its position as the tenth largest oil-producing country in the non-Communist world. Indonesia's gross exports of crude oil and refined products during the year exceeded 347 million barrels, a 26 percent increase in quantity over 1971. In value these exports grew by almost 65 percent to just under one billion dollars, accounting for over half of the country's gross foreign exchange earnings. Seventy percent of these exports went to Japan and about 16 percent to the United States.

4. Recent significant events were: (i) high and rapidly rising rate of exploration and development activity with 1972 expenditures of \$634 million expected to rise to \$737 million in 1973; (ii) numerous discoveries of new fields both on - and offshore expected to raise average daily production to about 1.4 million b/d in 1973; (iii) a price increase from \$2.96 per barrel f.o.b. to \$3.73 f.o.b. effective April 1, 1973 for virtually all Indonesian crude; (iv) signing in March 1973 of a loan agreement between the Government of Japan and Indonesia equivalent to \$234 million involving the long-term supply of crude oil; and (v) expansion of Pertamina's activities in services, tourism and community development, including joint ventures.

5. Pertamina, the state run oil company having sole responsibility for oil operations in Indonesia, last year had gross revenues of about \$600 million and total fixed assets valued at over \$2.0 billion, excluding those of subsidiaries. It engages in all aspects of petroleum activities including exploration, production, refining, distribution and marketing. It has signed production sharing contracts with over 30 foreign companies covering their activities in Indonesia. In addition, it operates a large fleet of tugs, barges and tankers with a total tonnage of \$1.4 million DWT. Through subsidiaries and other joint ventures it also engages in numerous activities in support of its operations such as telecommunication, transport, construction and tourism.

#### Pertamina's 1972 Foreign Borrowing

6. Details of Pertamina's investments in the past several years have been closely guarded, and the Bank's knowledge of these investment plans especially for 1971 and 1972 are based on evidence of foreign borrowings supplied by GOI and other foreign credit sources. Pertamina's foreign borrowing in 1972 amounted to \$363 million, of which all but \$22 million was disbursed during the period. These borrowings, which were largely unreported to the GOI, led to total foreign borrowings which exceeded the ceiling on short-and medium-term borrowing under the existing stand-by agreement with the IMF.

7. Both Mr. Goodman and representatives of the IMF met with high-ranking officials of the Government in April 1973 and expressed grave concern about this situation. Agreement was reached between GOI and the IMF on a ceiling for 1973-74 on short and medium term (1 - 15 years)



July 23, 1973

borrowing of \$220 million, of which not more than \$30 million could have maturities of less than three years. GOI also agreed with the Bank on a program, announced at the IGGI meeting in May, for controlling Pertamina's financial activities. The main points of this program are:

- (a) strengthening of the Divisions in the Ministry of Finance and Central Bank in charge of monitoring foreign borrowings;
- (b) establishment of a separate office in the Ministry of Finance with the sole responsibility related to the financial operations of Pertamina; and
- (c) frequent (at least monthly) meetings of the Board of Supervisors, charged with overseeing Pertamina's financial operations and policies. This Board established in October 1972 consists of the Minister of Mining (Chairman), the Minister of Finance and Chairman of BAPPENAS.

#### Pertamina's Recent Activities

8. We understand from the Resident Staff that the Government has had some success in recent months in exercising control over Pertamina. The Board of Supervisors is meeting frequently. Pertamina has for the first time supplied its annual budget for FY73/74 and its financial statements for auditing by GOI as required by law of all state enterprises. IMF representatives in Jakarta, who monitor performance under the stand-by agreement, report that to-date Government borrowings (including Pertamina) are well below the agreed ceilings. More precise figures are being prepared and the Bank's economic mission will review this question in detail in Jakarta in August.

9. Pertamina's investment program for 1973/74, discussed with the IMF in March 1973, amounted to \$282 million on a disbursement basis. Recent reports from AID, US Eximbank and the Indonesian Embassy indicate that Pertamina's investment actually may be higher. Investments in advance stages of consideration are:

- (a) Cilacap Refinery (\$167 million) (see attached memorandum to Mr. Knapp of July 20, 1973).
- (b) Semangka Oil Depot (\$234 million) (see attached memorandum to Mr. Knapp of July 17, 1973). The Resident Staff has reported that contracts not finalized but foreign borrowing in this project is unlikely to exceed \$40 million.

July 23, 1973

- (c) Batam Island Development (\$372 million) - master plan development for 100,000 - 300,000 b/d oil refinery, metal fabricating plants, tourist facilities, agriculture and supporting infrastructure. Pertamina, Pacific Bechtel and Nissho Iwai have entered into a joint venture for this development.
- (d) Fertilizer - Construction of a urea/fertilizer plant ~~to be~~ built in West Java, for which an IDA Credit is planned for in the FY75 lending program.
- (e) LNG (possibly \$1.1 billion). Pertamina is reported to be seriously considering constructing two major LNG producing facilities including tankers. These would be located near already producing ~~fields~~ in North Sumatra and in East Kalimantan. The US Eximbank has been approached and shown interest in financing about a third of the proposed investment.

10. While this program is very large, it is encouraging that Pertamina has in recent months been able to obtain large amounts of foreign financing on reasonably favorable terms. The Japanese oil loan of \$234 million, partially untied, is repayable over 25 years including 7 years of grace and has an interest rate of 3 percent per annum. For the Cilacap refinery, Pertamina was able to obtain \$108 million from the US Eximbank and US commercial banks on terms exceeding 15 years. Moreover, much of the program may be financed by direct foreign investment. However, Pertamina's very large investment program does give cause for concern, particularly if Pertamina should resort to short-term financing. Aside from the problem of financing, there is a continuing need to ensure that Pertamina investments are serving national economic priorities.

11. While the Government's statement at the May 1973 IGGI meeting and the recent efforts to assert Government's control over Pertamina are encouraging, Mr. Sutowo is a very powerful political force who has in the past strongly resisted any form of Government control. Pertamina's activities, and particularly its foreign borrowing, have been a matter of concern not only to the Bank Group, but to the IGGI which has pledged over US\$720 million of non-food assistance to Indonesia on concessional terms for FY74, on the assumption that the Government will maintain sound economic policies and careful management of foreign borrowing.

Attachments:

RGDavid/MGould/GMStreet:gss



Biographical Data of General Ibnu Sutowo

Born: September 23, 1914 in Central Java

Married: September 1940 Zaleha Ahmad

7 children - 5 daughters and 2 sons

Education: Graduated from medical school in Surabaya, 1940. Appointed Government Medical Doctor.

Professional Career: September 1945 active in the Independence War against the Dutch.

Appointed Head of the Public Hospital in Palembang

February 1946 - Appointed as Head of Army Health Services for South Sumatra territory with rank of Major.

February 1948 - Appointed Chief of South Sumatra Military Sub-Command.

June 1951 - Acting Commander of the South Sumatra Command with rank of Lt. Colonel.

1956 - Promoted to Colonel at the Army Headquarters in Jakarta.

1957 - Deputy to Army Chief of Staff in Jakarta.

Appointed President-Director of Permina

1964-1966 - President Director PN Permina

Concurrently - Minister attached to Presidium of the Duirkora Cabinet; Minister of Oil and Natural Gas in the Development Compartment.

1966- 1967 - Acting Minister of Mining and of Oil and Natural Gas Affairs.

1967 - 1968 - Appointed Director General of Oil and Natural Gas and concurrently Adviser to the President in INBANG Affairs and at the same time the President-Director of Permina (later became Pertamina).

President has seen



1965 - Todate - Governor of OPEC

- Decorations:
1. Order of Merit Medal
  2. Army Medal
  3. Navy Medal
  4. Air Force Medal
  5. Police Medal
  6. Development Medal of Merit



20



## OFFICE MEMORANDUM

TO: Files

FROM: David L. Gordon, Director, Resident Staff in Indonesia

SUBJECT: Meetings of Mr. McNamara with Indonesian Ministers and Officials

DATE: February 26, 1974

1. Four meetings were scheduled at intervals from 8 am until 3 pm on February 18, 1974, as follows:

- 08.00 - 09.15 Minister of Manpower, Transmigration & Cooperatives -  
Professor Soebroto  
Minister of Trade - Drs. Radius Prawiro  
Head of Logistics Agency (BULOG) - General Arifin
- 09.30 - 11.00 Minister of State for People's Welfare -  
Professor Soenawar Sukowati  
Minister of Health - Dr. G. A. Siwabessy  
Minister of Social Affairs - Mr. H.M.S. Mintaredja  
Minister of Education & Culture - General Sjarij Thayeb \*  
Minister of Religious Affairs - Professor H.A. Mukti Ali  
Chairman of National Family Planning Coordinating Board -  
Dr. Soewardjono
- 11.15 - 12.45 Minister of State for Economic, Financial and Industrial  
Affairs (Chairman, Bappenas) - Prof. Wijoyo Nitisastro \*  
Minister of Finance - Professor Ali Wardhana  
Minister of Mining - Professor Mohammed Sadli  
Governor of Bank Indonesia - Drs. Rachmat Saleh
- 13.00 - 15.00 (Lunch)  
Minister of Agriculture - Professor Thojib Hadiwidjaja  
Minister of Industry - General M. Jusuf \*  
Minister of Public Works & Electricity - Ir. Sutami \*  
Minister of Communications - Dr. Emil Salim

(\* indicates the Minister was absent, in most cases called to the National Assembly, and was represented by a subordinate.)

Mr. McNamara was accompanied in all the meetings by Messrs. Clark, Ljungh and Gordon.

2. Mr. McNamara asked about the rice situation, prospects for the current crop year and expectations for the Second Plan period. Professor Soebroto said the current crop looks promising, with ample water and increasing use of high-yielding seeds and fertilizer (recommended rate 200 kg urea per hectare). However, supply difficulties are foreseen for fertilizers. Estimated rice production in the 1973-74 crop year is 15.4 - 15.6 million tons. The Second Plan calls for an increase of 3.3 million hectares in the areas of intensification for rice and secondary crops.

President has seen .. /2

3. General Arifin said total rice consumption in Indonesia is currently 15-16 million tons, of which 2.2 million are distributed by Bulog (the food supply organization) to the Armed Forces, Government officials and staff of State Enterprises. He estimated the import requirement for 1974-75 at 1.2 million tons -- proposed to be purchased approximately 250,000 tons from Thailand, 200,000 from Burma, 200,000 from Pakistan and 550,000 from the U.S. and mainland China (Indonesia obtained 600,000 tons from China via Hong Kong in 1973-74). 450,000 tons already purchased from North Korea, Pakistan and Burma will be arriving after March 31, 1974. The rice stock in Government hands at present is 470,000 tons and Bulog's target is to maintain a carry-over of 500,000 tons. Storage capacity is the main constraint. General Arifin anticipated that the world food supply might be worse this year than last; he noted that Taiwan was now a net importer for the first time. The high level of current prices was indicative; Thai rice early in 1973 was \$130 per ton CIF, in November 1973 it was \$335, and now is being offered at \$515 approximately. U.S. long grain rice was quoted at \$380 per ton CIF in the first half of 1973, \$560-580 in the second half, and nearly \$900 currently. Inferior Pakistan rice (50% broken) was now \$440. Thus the increase over the average price assumed for the Second Plan (\$350 per ton) was about \$150-200.
4. Drs. Radius Prawiro estimated Indonesia's fertilizer requirements at about 1.8 million tons per year, and domestic production only 300,000 tons. The import cost was now \$270-305 per ton CIF for urea, with supplies very limited, as against about \$130 last year and \$70-80 in 1972. Japan is the major supplier, providing about 300,000 tons.
5. Asked about the cost of storing rice, General Arifin said almost all the Government's grain stock was stored in rented space at Rp. 4.5 per ton per day; the rent was now being increased, however, to Rp. 9-13. Most of the rented premises were old and unsatisfactory. A Rp. 29 billion program for construction of new storage was proposed for the Second Plan. Undoubtedly, the net cost of storage in new premises would be higher. Grain losses were calculated at about 3%, of which 2% in storage. Mr. McNamara expressed the view that adequate stocks were essential for political stability and protection against contingencies and seemed well worth the cost.
6. General Arifin noted that Indonesia's other major food import is sugar, about 260,000 tons per year, and that the price has doubled over the past year.
7. Professor Soebroto briefly outlined Indonesia's population problems and policy. He said 76 million people (60% of the total) are concentrated in Java. The Government's objectives are to create employment at wages sufficient for an adequate family living, to attract settlers to the outer islands and organize planned transmigration, and to stimulate investment that will create employment opportunities outside agriculture. The maximum short-run effort is being made to provide jobs in Java through rural development programs: INPRES grants for work programs at the provincial, kabupaten and desa levels; special padat karya help to deficit areas; subventions for



reforestation activity; and efforts to develop small industries.

8. Professor Soebroto said that transmigration of 1.8 million people per year would be necessary to fully offset population growth in Java. However, he said, the Government sees the transmigration program primarily as means to development of the outer islands, to national integration and to strengthening the national defence; the emphasis was on the outer islands' needs, with mitigation of population pressure in Java an important but secondary purpose. He noted the diversity of cultures and languages in Indonesia, hence the complex problem of national integration. He stressed the need for transmigration to be associated with upgrading of the local population and with proper assessment of manpower needs in the outer islands. He suggested that making economic and educational opportunities for the regions more attractive would help keep their inhabitants in place and reduce the influx to Jakarta; the 26 universities, most of them in outlying regions, are an important factor to this end.

#### Social Affairs Group

9. Professor Soenawar Soekawati read a statement (copy attached as Annex A) noting that the Second Plan would give greater attention to measures fostering social security and well-being, employment and equitable distribution of income -- improvement in the quality of life as well as rapid economic growth per se. He cited Indonesia's traditions of religion and communalism, and striving toward harmony between the individual and the group and between the group and the cosmos; individualism and materialism, he said, are of less significance than in western countries.

10. Dr. Siwabessy briefly outlined the Second Plan targets for the Health sector: 11,000 doctors for 120 million people; 100,000 paramedical staff; 6,000,000 family planning acceptors; completion of the first phase construction of maternal and child health centers and family planning clinics. Of the health centers, 500 are to be built in 1974-75. Their coverage is to be widened through provision of mobile units (specially equipped Land Rovers). He emphasized the need to raise the qualifications of auxiliary nurses to fully fledged family planning nurses. Mr. McNamara asked how the improved medical care would affect the mortality rate. Dr. Siwabessy said mortality was now about 40 per thousand <sup>1/</sup> and should fall to below 20.

11. Mr. Mintaredja said that development aims must conform to the Pancasila philosophy and demographic characteristics of the Indonesian people. Family planning would be effective only when the sense of need to limit family size became comparable with the urge toward religion or education. Under-employment in Indonesia was partly invisible since wage earners took care of extended family members. In his view, Indonesia could not yet be called a developing country; its rural areas were still extremely backward.

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<sup>1/</sup> The correct figure is about 20.



12. Professor Mukti Ali referred to the Pearson, Jackson, and other reports on the successes and failures of the U.N. Development Decade which stressed deficiencies in social progress and participation. He suggested that religious leaders could play an important role in development since its motivation must derive from the cultural and religious life of the nation; if the motive for family planning is only economic and material, it will not succeed. He noted that the religious schools, which comprise 20% of total school enrollment, are intended not only to train religious leaders; 70% of the curriculum consists of general education, only 30% is religious, and vocational subjects, including cooperation, are also taught. There is also a six-year post-elementary course for teachers of religion and general courses in the schools. He asked that the religious school system be considered for possible financing by the Bank Group. Mr. McNamara asked whether the concept of family planning was consistent with the Indonesian culture -- i.e., whether there was generally a strong desire to limit families. Mr. Mukti Ali said the idea of family planning was universally accepted and supported, but its aim should be to promote happiness as well as to limit numbers.

13. In the absence of the Minister, the Director General of Education summarized major educational objectives and programs. He said only 65% of the primary school age population was in school; and expenditures were only Rp. 40 per pupil. <sup>1/</sup> The Second Plan, however, envisaged a fivefold increase in the educational budget. The main stress of the Second Plan effort would be on primary education, assisted by the IDA/CIDA credits. The text book component of the project was well in hand, with a Project Implementation Unit established and staffed; similar PIUs were being set up at provincial levels to improve distribution. Five consultants in planning, administration and training were called for, of which three had been appointed. Pre-qualification of printers had been completed, the remodelling of offices was in progress and an equipment list would be sent shortly to Washington. Teacher training on a large scale would start in May/June. The previous IDA technical education project aimed at upgrading 80 out of 120 misnamed "senior technical institutes" to serve more effectively both the modern and traditional sectors. Problems had been encountered in the administrative management of the project, but reorganization of staff was now substantially completed. Sufficient Rupiah funds were now available.

14. Dr. Suwardjono read a paper (Annex B) summarizing the origins, objectives and achievements of the BKKBN. He said their target was to reduce Indonesia's fertility rate 50% by the year 2000. He outlined a three phase program, envisaging progressive expansion of its guidance to those needing family planning services and intensified educational and promotional work to enhance awareness of the population problem and acceptance of the small family norm. He said the number of new acceptors had increased from

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<sup>1/</sup> The latest IDA appraisal report estimates 77% of the relevant age group in school. It is unclear what the Rp. 40 figure refers to; it is far too low to be an annual, or even monthly, cost and too high to be daily.

the initial target of 125,000 in 1970-71 to 1,250,000 anticipated in 1973-74, for a cumulative total of 2.65 million; that the average continuation rate is 60% for use of the pill and 80% for IUDs for two years; and that an estimated 802,000 births were prevented over five years. He described the family planning information, education and communication activities: general information through magazines, leaflets, films, etc; community education by informing community leaders and leadership groups and through exhibits, seminars, adaptation of traditional puppet shows, etc; and face-to-face communication, especially by family planning field workers. (The ratio of field workers to the total population is 1 to 13,350 in the program concentration areas, the target is 1 to 10,000.) He mentioned the services established -- 2,215 family planning clinics, 300 medical mobile teams, 1,087 doctors and 3,400 paramedical personnel -- training programs undertaken and changes made in the organization structure of the program. During the Second Plan, he said, the BKKBN would aim at decentralizing decision making, contracting out various supporting functions, standardizing administrative procedures, stimulating innovations and improving efficiency. Acceptor targets are 8 million for Java/Bali and 1 million for the outer provinces, resulting in 4 million continued users in FY 78. The program, hitherto limited to Java/Bali, would be extended to other islands.

15. Mr. McNamara called attention to the population distribution shown in a BKKBN chart, heavily weighted toward younger age groups. He pointed out that the target of 50% reduction in fertility by 2000 would suggest the prospect of the national population stabilizing at 500-700 million a century hence, and asked whether the targets were sufficiently ambitious. He also questioned whether the resources and staff provided were enough to attain even these targets.

#### General Economic Policy Group

16. Mr. McNamara asked what adjustments to the Plan would be necessary and likely as a result of the increased revenues and higher import prices that were anticipated, and how these revisions would affect Indonesia's need for external resources. Professor Wardhana said uncertainties as to the extent of price rises and the availability of supplies of fertilizer and construction materials, especially the former, made projections difficult. Governor Saleh said the Government's present tentative thinking was to hold the line on the aid request for 1974-75 put forward in December, in view of these uncertainties, and the fact that a number of IGGI members had already indicated pledges.

17. Mr. McNamara mentioned the adverse reactions he had received from some Executive Directors when he presented a recent loan to Iran. He recognized Indonesia's situation was different, given its more limited oil reserves, large population and low income per head. Nevertheless, assuming the continuation of present oil prices, he foresaw a substantial accumulation of foreign exchange reserves in the short run. Governor Saleh suggested that the increased cost



of projects and other import requirements might largely offset the rise in oil revenues, but he acknowledged that there would probably be some increase in reserves. After a brief discussion, he and Wardhana opined that it might amount to \$1 billion for 1974.

18. Mr. McNamara asked how much the development program would be expanded in the light of these additional resources. Gov. Saleh said that price increases would substantially raise the total in nominal terms; how much real expansion is possible would depend on implementation capacity. Prof. Sadli noted that the present draft Plan was based on an oil price estimated to start at \$8 and rise to \$10 per barrel, and production volume of 1.4 million barrels rising to 1.7 million barrels per day, during the five-year period. He suggested that it might be best to keep the Plan as it is, reserving the incremental oil revenues against contingencies and as a "piggy bank". He feared that an explicit surplus might open a Pandora's box of demands from the National Assembly; so far the latter had not questioned the "balanced" budget indications based on lower oil prices.

19. Mr. McNamara said it was essential, in his view, as a condition for Indonesia's obtaining continued IGGI assistance, that the GOI recalculate and justify its needs for external capital in the light of the changed circumstances; and that this be done promptly and in persuasive terms. Perhaps the amounts if assistance provided on concessional terms would decline, but the absolute total might well increase in view of Indonesia's stronger economic position. Gov. Saleh made the point that in addition to bigger import and investment requirements, Indonesia would need a higher level of foreign exchange reserves than before; Mr. McNamara agreed, but thought reserves equal to six months imports, roughly the current level, are ample compared to other developing countries.

20. Prof. Wardhana asked whether Bank Group financing for Indonesia would necessarily be on harder terms than in the past. Mr. McNamara responded affirmatively. He said that the limited amount of IDA funds results in the anomaly that Bank Group assistance to the poorest IDA countries averages only \$1 or less per capita, whereas to Bank-eligible countries (such as Brazil) it can be \$4 or 5 per capita. He pointed out that Bank loans have an appreciable concessional element because of their low interest rate and long amortization as compared to alternative sources of finance. Previously, he said, Indonesia was not considered creditworthy for Bank lending; now prima facie it is. The question is how much. He said the Bank has not yet set any limit or target for lending to Indonesia, but it will have to do so soon in order to decide how large a complement of staff to assign to the Indonesia program. He said he estimated that after revision (and likely expansion) of the development program in the light of oil revenues, Indonesia will still need large amounts of external capital in the medium term in order to develop the economy at the optimum rate; and he thought the Bank would be an advantageous source for such capital since its lending rate, assuming inflation at 10% or more per year (the GOI representatives had suggested it might be as high as 20%), really constitutes a negative interest rate.

21. Gov. Saleh asked whether a blend of Bank and IDA funds, in whatever proportions is decided, would be applied to each individual project. Mr. McNamara said it is not Bank policy, and would serve little purpose, to mix Bank and IDA funding in the same project; rather a mix of projects, some financed from the Bank and some from IDA, would achieve the appropriate blend proportions overall. Prof. Wardhana asked whether it would be sound policy to finance such projects as transmigration (as distinct from industries) from Bank funds rather than from IDA. Mr. McNamara responded that the decision as to whether financing is provided from Bank or IDA is made on the basis of the country economic situation and not on project grounds. He noted that in a number of countries education and population projects are financed through Bank loans.

22. Gov. Saleh said it would be unfortunate if Indonesia were shifted abruptly to Bank loans only; this might influence other members of the IGGI similarly to harden the terms of their financing. Prof. Sadli said such a result would be especially unfortunate since Indonesia's single great current source of earnings cannot be relied on indefinitely. Mr. McNamara said he was sure the IGGI members themselves were reviewing the situation and would undoubtedly be influenced by the rise in Indonesia's revenues, not mainly by what the Bank might do. But he again urged the Government to put Indonesia's needs in long-term perspective and to make tangible the requirements and objects of investment.

23. Prof. Wardhana asked whether the main criterion for IDA eligibility is a country's stage of development or its ability to repay. He said that the latter could not be assessed only on the basis of present reserves and balance of payments. Mr. McNamara replied that as among countries below the per capita poverty line the only criterion for IDA is lack of ability to repay. The Bank makes the best estimate possible of long-term foreign exchange earning prospects; and for Indonesia the prospects of its being able to use foreign investment productively, to maintain its economic growth and to repay its debts now seem good. He said he was prepared to commit additional Bank staff to assist Indonesia in making the best possible use of resources, both its own and those from abroad. For the short run, when there was likely to be a surplus of revenues, he suggested the possibility of investment in World Bank bonds, and mentioned the forthcoming issue designed for Central Banks; he made it clear, however, that there was no link between possible bond purchases and Bank lending to Indonesia.

#### Infrastructure and Production Ministries Group

24. The Minister of Agriculture, Professor Thoyib, said that the Ministries there represented are the beneficiaries of most of IDA's lending and look forward to continued assistance in the execution of their programs during the Second Plan. He apologized for the absence of the other Ministers, who were called to the National Assembly for consultations on the Plan, but were represented by senior officials.



25. The Director General of Water Resources (Mr. Sujono Sosrodarsono) explained that his agency is responsible for irrigation and flood protection works serving agriculture, river basin studies for integrated planning, and development of water supply systems. He said top priority was given to rehabilitation of the irrigation system over the first two Plan periods, for which IDA is providing extensive assistance; development of new irrigation works in the outer islands to support transmigration will have increasing importance in future.

26. The Director General of Highways (Mr. Poernomisidi) said his Department gives primary attention to progressive improvement of the existing road network through comprehensive rehabilitation and upgrading, with only limited new construction. The existing network, he said, is extensive but of unsatisfactory standard; he classed 23% of the road mileage as good, 37% fair and 41% poor. The Second Plan aims at reducing the last category to only 9%. Foreign exchange financing is required primarily in new road construction and major betterment works, but the lesser roads also should not be neglected. He mentioned that a substantial increase in the vehicle carrying capacity of roads, especially in urban areas, is required; such projects have high investment requirements and returns, and the possibility of financing them through special taxes or tolls is under consideration.

27. The Director General for Housing, Planning and Urban Development (Ir. Rachmat Wiridasuria) emphasized the importance of the urban development project which IDA is considering. One component, the Kampong Improvement Program in Jakarta, has been under way for nearly five years; it could be substantially accelerated with Central Government assistance and serve as a model for other urban centers. For the income group just above the Kampong Improvement beneficiaries, a sites and services program is proposed, for which the IDA project would be a prototype. The IDA project would finance only minimum core houses. A mortgage finance company is needed to assist higher level housing development. He said it is intended to subsidize the lowest level accommodations with resources obtained through taxing the higher cost housing, which has previously enjoyed an effective subsidy through provision of services at less than real cost. He said assistance is being provided to the principal municipalities in formulating urban master plans, which will be integrated with regional and national plans. For water supply, the Second Plan envisages joint financing by municipalities and the Central Government, pioneered by the Seven Cities Study which IDA financed (the physical investment is being financed in parallel by Switzerland and IDA). Responding to Mr. McNamara's question, he said that population growth in Jakarta had peaked at 7% per year and was currently about 5%; he confirmed that large numbers of squatters are a serious problem.

28. The President Director of the National Power Company - PLN ( Mr. Abdul Kadir) said the Second Plan calls for doubling of generating capacity from 1,000 to 2,000 megawatts, and disbursement of \$600 million; a substantial fraction of this is being financed by IDA. He said he will be seeking IDA approval in mid-1974 for a third 100 MW thermal plant in Jakarta, costing about \$35 million, plus the overrun on the first two IDA-financed units.

29. The Communications Minister (Dr. Emil Salim) defined the task of the transportation system as to support an economic growth rate of 7.5% overall, which calls for expansion at 10-12% per year in the transport sector. The main requirements, he said, are to improve sea communications, roads and (in Java) railways, and air links among the widely scattered islands; this will help economic integration and assist the growth of economically weaker regions, particularly Eastern Indonesia. He said telecommunications links are being improved for Java/Bali, then Sumatra, then from Bali to the eastern islands; tourism is being promoted especially in Bali, the site of a pilot project for major expansion of tourist facilities while minimizing the impact on local culture. The Minister noted that these projects have a high foreign exchange component, but many aid-givers are shifting their emphasis from infrastructure to social sector projects; thus, although the communications sector is expanding more rapidly than the economy as a whole, the gap between need and availabilities is still widening.

30. Dr. Salim stressed the seriousness of the urban transportation problem, especially in Jakarta. He noted that the Government had previously depended on private enterprise for urban transport services but now considers public subsidies are necessary not only to make better service available, but also to guide development of the urban area on rational lines and establish proper links between places of residence and employment. He said the use of private cars, the numbers of which have been expanding by 22% per year in Jakarta, must be restricted; to replace them 1500 more buses are needed (a 100% increase), but USAID financing, on which the GOI has previously relied, is restricted to privately-owned buses.

31. The Director General of Chemical Industries (Mr. Agus Sujono) said the Second Plan for industry would pursue the same objectives as the First -- employment, a balanced industrial structure and balanced regional development. The emphasis will be on small industries as creators of employment, on development in regions outside Jakarta, and on better integration of large and smaller industries, with a greater use of domestic resources by the larger ones. He said the only industrial project financed by IDA so far is the PUSRI fertilizer plant,<sup>1/</sup> and suggested further projects as follows:

- (a) the West Java fertilizer plant, for which the feasibility study is now nearing completion;
- (b) a pulp and paper industry based on long fiber pine in North Sumatra or Central Java;
- (c) new industrial estates to promote regional development in Medan, Surabaya, Cilicap and Makassar;
- (d) assistance to small industries -- not only technical assistance but also credits;

<sup>1/</sup> In fact, there are also the Jakarta Industrial Estate and the two DFC projects.



- (e) development of the salt industry, to improve product quality and lower the cost of the raw material for other chemicals; and
- (f) machinery workshops, to serve rural industries and agriculture.

32. The Agriculture Minister read a lengthy list of projects proposed for IDA consideration, amounting to a total of \$2.5 billion, as follows:

i.	Oil Palm Planting in new land close to Nucleus Estate	\$10,000,000
ii.	Rehabilitation of sugar factories and establishment of new sugar factory outside Java	36,000,000
iii.	Cotton development	30,000,000
iv.	Nucleus estate/smallholder development	48,000,000
v.	Oil Palm nucleus estate, South Sulawesi	12,000,000
vi.	Rehabilitation of National Private Estates	72,000,000
vii.	Skipjack fisheries project, Ambon	4,700,000
viii.	Fisheries Education and Training	4,700,000
ix.	Brackish Water Fisheries	17,000,000
x.	Fishermen's Credit	36,000,000
xi.	Rehabilitation of main seed farm	5,000,000
xii.	Seed Industry development	12,500,000
xiii.	Plant Protection	7,500,000
xiv.	Livestock Development	6,300,000
xv.	Rural Cooperative Livestock Development	8,800,000
xvi.	Resettlement Program	2,180,000,000
xvii.	Orchid Industry	P.M.
		<hr/>
		\$2,496,500,000

33. Documentation presented by the several Ministries is attached (Annexes C - N).

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file - McNamara visit

MEMORANDUM FOR THE RECORD

Indonesia: Meeting on Population, February 17, 1974

Present: Messrs. McNamara, Gordon, Ranganathan and Clark

Mr. Ranganathan summarized the Indonesian population program where the aim was to reduce age-specific fertility by 50%. There are 83 million people in Java and Bali, of which 14 million are women in fertile areas. The aim for the period 1970-1979 was to achieve coverage of 8 million of the 14 million. Despite this the stable population would be in the order of 500 million people. At year 2000 the growth rate would likely be 1.25% or a doubling in 70 years. At present there were one midwife per 80,000 persons, while the objective would reduce this to one per 15,000. In actual practice only one per 45,000 would be achieved. Mr. Ranganathan cited success in India with a pilot project encompassing 600,000 where the birth rate had been brought down from 42 to 28 in four years.

Mr. Ranganathan thought that prospects for success would be reasonable if the program achieved attains a better administrative organization, more field workers and more midwives. Continuation rates were high with 80% of IUDs retained after 24 months. There were 2500 registered clinics and each acceptor was registered on a card with excellent follow-up of program performance every three months. A survey had indicated that 70% of the population new the availability of family-planning services and were willing to use them. The President himself was interested and religious groups were not opposed. Leadership on the top of the organization was good but management throughout was inadequate. 300 managers needed administrative training.

Mr. Ranganathan suggested that a second credit of the Bank should include training in the fields of population and nutrition. In population it should be in administration and professional training to nurses and midwives. The Bank could help in planning the curriculum of these and Mr. Ranganathan suggested that BAPENAS be established as a center for population statistics and research. Mr. McNamara urged that the Bank mission flag deficiencies in the program to the Government in order that objectives may be restated at an early date. He emphasized that the program, although well conceived and probably one of the best in the world, was totally inadequate to deal with the problem of achieving an acceptable stable population level for Indonesia. He recommended that the Bank finance anything which it thinks is productive without limiting itself to physical facilities.

Since Mr. Ranganathan would be returning to Washington within a few months, Mr. McNamara asked that population be considered as important as any other aspect of the mission's work, that Mr. Ranganathan work out an arrangement for the continuation of his work after his departure and that he would describe the characteristics required of his successor.

In a meeting with the Ministers of Health, Education and Family Planning on February 18, Mr. McNamara heard a number of exposes of the various sectors. The discussion focused mainly on family planning where he again emphasized the high quality of the Indonesian program as well as its inadequacy to deal with the population problem since the stable population would be 500-700 million people even if the program is successful under its present objectives.

cc: Dr. Kanagaratnam

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March 4, 1974

President has seen



## OFFICE MEMORANDUM

TO: Files

DATE: March 1, 1974

FROM: David M. Gordon

SUBJECT: Meetings with Mr. McNamara on Population,  
Agriculture and Rural Works

1. From 4.30 to 7.30 pm on February 18, Mr. McNamara met in his hotel suite with selected members of the Resident Staff and others concerned, to discuss strategy, problems and programs in the above fields. Messrs. Clark, Ljungh, Takahashi and Gordon were present throughout; others participated as indicated below.
2. The population meeting was attended also by Dr. Suwardjono, Professor Hafid and Dr. Ranganathan. Mr. McNamara's initial questions and the responses highlighted the lack of adequate, reliable information on population trends and influences thereon. It was noted that Indonesia has only four professional demographers, three of whom are engaged in quite other activities. The Demographic Institute, in the University of Indonesia Faculty of Economics, headed by Professor Iskander, provides limited training in demographic data and program evaluation. Mr. McNamara emphasized that a sound population program must have a broad base of demographic, evaluation and statistical competence. It must be concerned with all aspects and inter-relationships of the problem, not just to promote acceptance of contraceptive measures. He supported the idea of a Population Studies Center, but anticipated that considerable time would be needed to compile and analyze data and make valid comparisons with other countries. The suggestion was made and generally agreed that assistance of a short-term broad gauge advisor, such as Friedman or Berelson, to review and help orient the overall program, would be useful. Professor Hafid mentioned the shortage of high level staff in BKKBN and suggested that qualified people could be detailed from other departments if the Government would give sufficient priority to the family planning program. Mr. McNamara raised this matter in his talk with the President the following day.
3. In a subsequent meeting, to discuss agriculture and rural development, Messrs. Storrar, Elz and Gray participated. Mr. Takahashi emphasized that despite the extreme overpopulation in Java, Indonesia still has a frontier in the outer islands. Some voluntary, unorganized transmigration is taking place, probably at about twice the rate of the Government-sponsored program. Both could be expanded substantially. Mr. Storrar described the transmigration project preparation just starting, with FAO/IBRD Cooperative Program assistance, and anticipated that a project for upgrading the existing population and settling a further 10-20,000 families, over five years, could be ready within a few months. Mr. Gordon noted that the GOI had accepted the proposal for a resident project preparation team, to be financed in part from the IDA technical assistance credit, and that it is hoped to firm it up shortly.
4. More generally, the need for strengthening agricultural services and institutions was emphasized. Mr. Gordon deplored the weakness and demoralization of the cooperative structure, and noted that Akhtar Hameed Khan is currently assessing the situation as a consultant for the Bank. Messrs. Takahashi and Storrar mentioned the agricultural credit preparation

President has seen

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mission that is contemplated shortly. Mr. Elz cited the credit features that have been incorporated in the Smallholder Tea Project; similar provisions in other special crop and livestock projects financed by IDA were noted; and there was general agreement that they would be an essential part of the projected transmigration/smallholder schemes in the outer islands. But it was agreed also that a more general agricultural supply/credit/marketing/extension system should be devised and promoted as rapidly as possible.

5. Mr. Takahashi noted the difficulties that have arisen for lack of financing at the inception of a project, because the expenditures in question are supposed to be financed by IDA and hence the GOI has made no provision. Mr. McNamara said there should be no difficulty in making an advance from Bank/IDA financing to enable a project to get started; specific provision for this, where necessary, should be made in the loan agreement.

6. The rural works meeting was attended by Messrs. Patten and de Wit, rural development advisors to Bappenas, and Mr. Musa Ahmad of the Bank's Washington staff. Mr. Patten outlined the background of the Kabupaten program, starting with Rp. 5.6 billion three years ago, mounting to Rp. 42.5 billion proposed for FY 1974/75. He estimated the latter amount would generate about 90 million man-days employment. He and Mr. de Wit described the pragmatic, rather ad hoc evolution of the program; they opined that it is now running out of obvious rehabilitation projects just when its resources are greatly increased, and that its continuance on a sound basis will require definition of new development purposes at the kabupaten level and upgrading of local capabilities -- technical standards, appraisal criteria, contracting and procurement procedures, and financial controls -- as well as central monitoring and evaluation, all of which will require large-scale training programs.

7. Mr. McNamara said that, on the basis of what he had been told, the rural works program in Indonesia seems to be going very well. It appeared that, with the allocations in the 1974/75 budget, the program will not be in need of funds. Perhaps, he thought, involvement of the Bank Group might complicate or delay further development of the program along the practical lines already established; it was not clear to him whether, or for what purpose, Bank assistance is needed. If, however, the GOI considers that there is a role for the Bank to play, he would consider it very sympathetically.

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21

## OFFICE MEMORANDUM

TO: Files

DATE: March 4, 1974

FROM: David H. Gordon

SUBJECT: Mr. McNamara's Meeting with President Suharto

Mr. McNamara, accompanied by Mr. Gordon, met with President Suharto in the latter's office at 9 a.m. on February 19. The meeting lasted about 45 minutes. Messrs. Rachmat Saleh and Ali Wardhana were in attendance, but the dialogue was exclusively between President Suharto and Mr. McNamara, through an interpreter.

President Suharto expressed a warm welcome to Mr. McNamara and appreciation for the World Bank's support and assistance to Indonesia over the past five years. He stated that his Government would continue to give priority to development objectives during the Second Repelita (Five-Year Plan), starting April 1, with special attention to the population and food problems. Noting that Mr. McNamara had visited Lampung two days earlier, he stressed the importance which the Government attaches to an expanded transmigration effort as a means of mitigating population pressures in Java. He said transmigration projects must be carefully prepared; necessary irrigation and other infrastructure must be provided in advance of the introduction of transmigrants; and they must be assured of food and other necessities during the period before they began to produce enough to support themselves. He also indicated that the family planning program, aiming to limit population growth directly, would be expanded and intensified.

In the short run, he said, major emphasis must be given to increasing food production, which requires much greater use of fertilizers. Indonesian farmers, fortunately, have quickly come to recognize the benefits of fertilizer use, and demand has expanded far beyond the country's productive capacity; import availabilities are also very limited. Faced with this situation, the Government found it necessary to shortcut the conventional project preparation studies, procedures and financing channels in order to get more production capacity with minimum delay. He hoped that the Bank would also assist the establishment, as early as possible, of still another fertilizer plant at Cirebon.

Replying, Mr. McNamara recalled his previous visit to Indonesia 5½ years earlier and the desire which the Government then expressed for financial and technical assistance from the Bank. The Bank had responded to this request with a special effort, had undertaken and financed numerous studies of specific development problems and projects and had approved 34 credits amounting to over \$500 million. Up to the present, he said, the Bank Group's financial commitment has been restricted by the limited availability of IDA funds; but Indonesia's improved financial situation makes it possible to consider making Bank loans, which are not limited in the same way. Hence, if it were the Government's wish, the Bank would be in a position to provide substantially greater amounts of financial assistance to meet the expanded requirements of

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President has seen



the Second Plan; he would be prepared to expand the commitment of staff as necessary to implement such a larger lending program in Indonesia. He understood that the Plan targets were being revised and raised in light of the increased resource availability, and the Bank would welcome indications from the Indonesian Government as to where its help could be most useful.

Mr. McNamara expressed agreement with the development priorities as outlined by the President. He said he was much impressed with the potential for highly productive agriculture and for the settlement of transmigrants in Lampung, and was informed that other areas were also promising. He thoroughly agreed with the President's emphasis on the need for adequate project preparation and support in the transmigration program. He noted that a project preparation team is currently in Indonesia, under Bank auspices. Its object is to put together a first transmigration project that should be ready for implementation within a few months. He envisaged that it might provide for the transfer and settlement of 10,000 to 20,000 families over a period of perhaps five years, and would serve as a prototype for a number of similar projects to be undertaken at an accelerating rate.

He agreed that a direct attack on population growth in Java/Bali is vitally necessary. He praised the Government's commitment to family planning and the effectiveness with which the program seems to be enlisting and keeping family planning acceptors, but said the immensity of the problem required an even greater effort. He thought the number of midwives and fieldworkers needs to be increased substantially and urged that adequate staff support be given, as a matter of priority, to the three key executives of the Family Planning Coordinating Board.

He discussed at some length the difficulties confronting IDA as a result of the sharp increase in oil prices. He cited three principal categories of countries that are adversely affected by this increase: first, those with generally buoyant economies and good international credit, e.g. Brazil, which can tide themselves over a period of adjustment by borrowing in the Eurodollar market; second, those for which the current rise in prices of export commodities partly offsets the increased cost of oil imports, such as Thailand; and third, countries which have neither solid credit nor increased export earnings, and thus suffer the full impact of the higher prices for oil and oil-based products (notably fertilizer) -- e.g., India, Bangladesh and Sri Lanka. IDA has no choice, he said, but to adjust its allocations among countries to help meet the desperate need of this last group. And given the limited total amount, this inevitably means some reduction in the current allocation for Indonesia. Fortunately, Indonesia's more favorable position now makes it possible to substitute Bank loans in more than equivalent amounts.

In conclusion, Mr. McNamara praised the performance record of Indonesia during the previous five years -- the overall quality of its economic management, he said, has been outstanding among the Bank's membership -- and stressed his wish to be of all possible help in carrying out Indonesia's Second Plan.

March 4, 1974

The President expressed his appreciation.

(We were informed later that President Suharto indicated to Messrs. Rachmat Saleh and Ali Wardhana that Indonesia would be receptive to some Bank as well as IDA financing. In an earlier conversation with Professor Wijoyo, Mr. McNamara suggested \$350 - 400 million annually as a reasonable lending target for the Bank Group as a whole.)

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22

MEMORANDUM FOR THE RECORD

1974 ANNUAL MEETING - INDONESIA

October 3, 1974

Participants: Messrs. Ali Wardhana, Rachmat Saleh,  
Julianto Moeliodihardjo,  
J.E. Ismail, and Saleh Afiff  
of the Indonesian Delegation

Messrs. McNamara, Knapp, Bell (last part),  
Votaw, Gordon and Sandberg from  
the Bank

1. Mr. McNamara welcomed the Indonesian Delegation warmly. He led off by recalling his discussions with the Government in Jakarta in February, during which he suggested the need for substantial acceleration of the development program, and the possibility of a much higher level of Bank financing, in view of Indonesia's increased oil earnings. At that time the Government's attitude was rather tentative, and he asked how they see the situation now.

2. Dr. Wardhana noted that the oil "bonanza" really started only in 1974. In February the Government felt quite uncertain as to how long the much higher price would continue to prevail, and was acutely aware of the country's greatly increased import requirements and the likely cost overruns for ongoing projects. Hence, they felt cautious about undertaking much higher commitments pending the picture being clarified. Moreover, having never previously had any appreciable reserves they had no reserve policy or experience in reserve management. Since February, he said, the Government has been rethinking its policy and program in the light of the changed situation. The Five-Year Plan is being revised upward, but in view of inflationary pressures (nearly 50% price increase during the 1973-74 fiscal year) it has been necessary to curb Rupiah expenditures; projects primarily requiring imports are being pushed ahead.

3. Mr. McNamara asked when the Plan revision would be completed, Dr. Wardhana and Dr. Saleh Afiff clarified that the revision is proceeding by stages, focusing first on the current annual development program. They said the aim is to compress the five-year investment targets into three years, then add new projects now under study, especially to attack communications bottlenecks and other gaps in infrastructure. They said the Plan targets and emphasis will be discussed in detail with the joint Bank/Fund Basic Economic Mission that has just arrived in Jakarta.



4. Mr. McNamara enquired how the Government anticipates that the reserve position will develop. Dr. Rachmat Saleh said they are consulting with the Fund to project the probable increases in foreign exchange needs, in the light of commodity price trends and imports required to curb inflation and meet essential consumption needs. He noted that timber exports (second most important) had declined sharply both in price and quantity; even for oil the Japanese demand had softened recently.

5. Responding to a question from Mr. McNamara, Dr. Wardhana and Dr. Rachmat Saleh said the recent rice harvest was very good; the Government's object, however, is to build up and maintain a reserve stock of one million tons of rice. They estimated the continuing deficit at 500,000 to 1 million tons of rice and nearly 500,000 tons of wheat annually. They agreed with Mr. McNamara that increasing food production deserves top priority along with infrastructure development. They stressed the need to expand fertilizer output rapidly, which Mr. McNamara endorsed, and noted that the Bank is being asked to consider as soon as possible still another PUSRI project.

6. Mr. McNamara expressed the Bank's continuing concern about the rate of implementation for Bank/IDA projects. In the past he said some Board members questioning the amount of IDA credits to Indonesia had cited the lag in disbursements as a reason for slowing down the rate of commitments; while IDA financing is no longer an issue rapid expansion of Bank lending might similarly be questioned. He said he is aware that improvement has occurred but suggested that more is needed. Dr. Wardhana acknowledged this necessity and said the subject is under discussion with both Headquarters and Resident Staff of the Bank.

7. Mr. McNamara said that both the Bank as an institution and the various individuals involved have a strong commitment to Indonesia's economic development, and he promised his continued support for an expanded lending program. He suggested that any temporary surpluses in reserves which may emerge might advantageously be invested in Bank bonds.

Indonesia Division  
East Asia & Pacific Programs Department

III. Biographies:

Ali Wardhana - Born in Solo in 1928, Mr. Wardhana studied economics at the University of Indonesia and the University of California, Berkely, where he received his Doctors and PhD. respectively.

He is Professor at the Faculty of Economics, University of Indonesia, and its Dean. He has also been Director of the Economic and Social Research Institute at the University.

In 1966 he became a member of the Economic Advisory Team to President Suharto, and in 1968 Minister of Finance. He was co-Chairman of the 1972 Bank/Fund Annual Meeting and Chairman of the Group of Twenty.

Rachmat Saleh - Born in Surabaya in 1930, Mr. Rachmat Saleh studied economics at the University of Indonesia where he received his Doctors degree.

He has spent most of his career in Bank Indonesia and was made its Governor in March 1973.





January 23, 1975

TO: Memorandum for the Record

From: Bernard R. Bell

BRB

Subject: INDONESIA - Meeting with Mr. Ali Wardhana, Minister of Finance, and Mr. Rachmat Saleh, Governor, Bank Indonesia

1. On Friday, January 17, Mr. McNamara met briefly with Minister of Finance, Mr. Ali Wardhana, and Governor of Bank Indonesia, Mr. Rachmat Saleh, at their request. I was also present.

2. Minister Wardhana said that the Government of Indonesia was increasingly concerned that some of the providers of external assistance to Indonesia were jumping to the conclusion that because Indonesia was an oil exporter and was enjoying larger oil revenues than in the past, it no longer needed or merited assistance. He asked for assurance with respect to the Bank's view and intentions. Mr. McNamara stated that it was his view, as he had indicated during his February 1974 visit, that given Indonesia's size, its low income, and the magnitude of its development problems, an adequate program attacking these problems would require and could readily absorb not only the foreign exchange earnings and Government revenues but substantial amounts of official capital from abroad. The essential task was for the Government of Indonesia to formulate and execute a program of adequate magnitude directed toward the increase in employment and income of the mass of its poor. He reminded the Minister and the Government that he had indicated in February that the Bank, although not in a position to continue to provide assistance on IDA terms, was prepared to make Bank loans in amounts very much in excess of the IDA credits it had been able to provide in the past. He also indicated that he was well aware of the attitudes and the thinking to which the Minister had referred and that there were considerable pressures on the Bank reflecting these. He advised the Minister to discuss the matter with the top financial authorities while he was in Washington. The Minister indicated that they had been informally discussing the matter with me and looked forward to continued Bank assistance to them in discussions with aid-giving Governments.

cc: Mr. McNamara's Office

BRBell:ea





February 27, 1975

To: Memorandum for the Record

From: Bernard R. Bell *BRB (en)*

Subject: INDONESIA: Meeting with General Ibnu Sutowo, President Director of PERTAMINA.

On the afternoon of January 31, 1975, Mr. McNamara met with General Ibnu Sutowo, President Director of PERTAMINA, at the latter's request. General Ibnu was accompanied by H.E. Rusmin Nurjadin, Ambassador, Colonel George Benson, Washington PERTAMINA Representative, and Mr. Rex Hasmore, New York PERTAMINA Representative. I was also present.

Prior to the meeting, I had spent about 15 minutes with the General and had suggested that there were a number of matters in which we were very much interested, in addition to whatever matters he might himself wish to speak about. I mentioned, among others:

- (a) The existing split of profits from oil production and sales between Indonesia (including the Government and Pertamina) and the foreign oil companies, the extent to which and the reasons for which this was more favorable to the foreign companies in Indonesia than characteristically in the Middle East.
- (b) The various activities, in addition to oil production, refining and marketing in which PERTAMINA was now engaged and was planning to undertake and the means by which these were being financed.
- (c) PERTAMINA's relationship, if any, to the steel mill project in Indonesia ("if any" meaning aside from the fact that General Ibnu was, in his personal capacity, President Director of the Krakatoa Steel Company which has overall responsibility for the steel project.)

In Mr. McNamara's office and without waiting for questions, General Ibnu immediately addressed himself to the first question mentioned above. He said that at the last OPEC meeting, it had been agreed that the amount which the member countries were to obtain, by one mechanism or another, per barrel of crude oil produced (using Arabian Light as the standard) was to be \$10.12 per barrel. Under existing arrangements in Indonesia, he said Indonesia was obtaining \$10.16 per barrel. This, he said, meant that today, on the average, the companies were making a profit of about \$0.50 a barrel on their Middle East production and a little more than \$2 per barrel on their Indonesian production.<sup>1/</sup> Mr. McNamara remarked that this meant that the

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<sup>1/</sup> The General did not explain that the figures he was citing related to the older so-called "contracts of work" involving principally the CALTEX and also STANVAC companies which do today count for about three-fourths of total Indonesian production, but that under the newer contracts which will



February 27, 1975

companies were getting all the premium paid for the low sulphur characteristics of most Indonesian crude oil and for its transport advantage in its principal markets and that this must amount to perhaps \$700 million per year.

General Ibnu said that there were several considerations involved; one was that because of the differing physical characteristics in the two areas, the investment costs per daily barrel of crude production were substantially higher in Indonesia than in the Middle East, and that the return on investment to the companies was not nearly as much larger in Indonesia than in the Middle East as was suggested by the characteristic difference in their profits per barrel produced. A second consideration, he said, was that at the outset some eight years ago, Indonesia had deliberately chosen to make investment in exploration and development in Indonesia more attractive to the oil companies and especially the major companies so that they would be willing to substantially increase from the very low levels prevailing at that time their investment in efforts to increase production in Indonesia. I asked how much the companies had actually invested in exploration and development as distinguished from current production in 1974 and how this compared with the figures of approximately eight years ago. General Ibnu replied that the figure for 1974 was in the neighborhood of \$700 million and was far higher than that of eight years ago. Mr. McNamara remarked that, nevertheless, the \$700 million extra earned by the companies out of their current production seemed a very large amount to pay in the light of the considerations that the General had mentioned and that so far as the \$700 million of investment in 1974 was concerned, obviously the companies expected to and probably would earn profits from this in the future. The General replied that this was, of course, true, but Indonesia would also earn additional and larger amounts from those investments. He said that, furthermore, the split of profits between the companies and Indonesia had been renegotiated in Indonesia's favor in January 1974 and that a further agreement again increasing Indonesia's share had just been negotiated with CALTEX, the largest producer and negotiations with others for the same purpose were under way or about to begin. The General said that he did not think it wise for Indonesia unilaterally to modify existing contracts and was, therefore, proceeding carefully on the basis of amicable negotiations.

The General said that, furthermore, many of the foreign oil companies were, out of their own profits, providing benefits to the communities and areas in which they worked, such as road improvements, school and health facilities, etc. He mentioned also that CALTEX, for example, was about to launch a large mechanized rice production project in Sumatra which would contribute substantially to Indonesia's rice production and supplies. They plan to begin with a first unit of 20,000 hectares and to expand this several fold

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1/ (cont'd) account for an increasing share in production in future years, Indonesia's take is substantially less than \$10.16 per barrel since the companies are permitted to deduct as depreciation 40% of the selling price as cost before net profits for division between Indonesia and the companies is calculated. At some point, these 40% annual deductions will exhaust all that is to be depreciated and consequently, Indonesia's share will go up significantly but precisely when that will happen in the case of each of the many contracts, we do not at this point know.



February 27, 1975

over the years. PERTAMINA itself, he mentioned, is undertaking a similar project of 20,000 hectares in Sumatra. Mr. McNamara asked what the investment in these projects would be. The General said that his recollection of the cost estimates on the PERTAMINA project indicated that for the 20,000 hectare unit, the cost would be \$100 to \$150 million. <sup>2/</sup> The General then listed some of the undertakings which PERTAMINA had already started or was planning, including the new oil refinery at Tjilatjap, a fertilizer plant in Kalimantan, another fertilizer plant in West Java, two gas liquefaction plants, one in North Sumatra and one in Kalimantan, and several others. He said that the Government of Iran had agreed to finance a large part of the cost of the Java fertilizer plant, U.S. EXIM-Bank was helping to finance the refinery and financing for other projects was being obtained or sought from the Eurodollar market.

Mr. McNamara asked about the terms on which commercial financing was being obtained. The General said that these were varying and that whereas earlier 8 to 12 year repayment periods with interest rates 1-1/2 to 2% higher than the London InterBank rates had been obtainable, it was difficult now to get more than 8-year money. Mr. McNamara asked why PERTAMINA was resorting to such high-cost financing rather than borrowing from the Government which was accumulating foreign exchange reserves rapidly. I remarked that the recent accumulation was not very rapid and that, in fact, the data indicated that at the end of December 1974, foreign exchange reserves amounted to approximately \$1.5 billion or three to four months of imports and had dropped from a somewhat higher figure several months earlier. Mr. McNamara said that, nevertheless, there ought to be no difficulty in PERTAMINA borrowing out of these reserves several hundred million dollars. He then asked the General how much PERTAMINA planned to borrow in the Eurodollar market in 1975. The General replied that the amount was \$700 million and that this did not include amounts to roll over existing debt.

Mr. McNamara thanked the General for taking time from his busy schedule to call on him. The General reciprocated in similar fashion and the meeting terminated.

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<sup>2/</sup> As we were returning to my office so that the General and his party could retrieve their coats, I asked the General if the investment cost in the rice project could really be as high as \$5,000 to \$7,500 per hectare and he reiterated that although these were rough estimates, his best recollection was they would be at least the lower figure.

BRBell:ea

cc: Mr. McNamara's Office  
Mr. Votaw (for information)



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 31, 1975

FROM: Bernard R. Bell *BRB*

SUBJECT: Meeting with General Ibnu Sutowo, January 31, 1975

I am attaching a bio-data sheet on General Ibnu Sutowo. It requires one addition, namely:

That since 1968, he has been President-Director of Pertamina which is now the sole Indonesian Government Oil and Gas company and he is no longer Director-General of Oil and Gas in the Ministry of Mines.

I believe that the General would like the opportunity to tell you something about a number of matters which he thinks you should be informed about and which he knows you are interested in, including the following:

1. the contractual arrangements between Pertamina and the oil companies and the split of the take in Indonesia as compared with that in the Middle East;
2. the various activities in which Pertamina is engaged including oil exploration, production, refining and marketing and those which are either downstream or unrelated to petroleum and how Pertamina is financing these; and
3. Pertamina's relationship, if any, to the steel mill project in Indonesia.

The General is not much of a self-starter in discussions of this matter and I would therefore suggest that you express your interest in these matters or permit me to do so.

BRBell/gbr

Born: September 23, 1914 in Central Java

Married: September 1940 Zaleha Ahmad  
7 children - 5 daughters and 2 sons

Education: Graduated from medical school in Surabaya, 1940. Appointed Government Medical Doctor.

Professional Career: September 1945 active in the Independence War against the Dutch.  
Appointed Head of the Public Hospital in Palembang  
February 1946 - Appointed as Head of Army Health Services for South Sumatra territory with rank of Major.  
February 1948 - Appointed Chief of South Sumatra Military Sub-Command.  
June 1951 - Acting Commander of the South Sumatra Command with rank of Lt. Colonel.  
1956 - Promoted to Colonel at the Army Headquarters in Jakarta.  
1957 - Deputy to Army Chief of Staff in Jakarta.  
Appointed President-Director of Permina  
1964-1966 - President Director PN Permina  
Concurrently - Minister attached to Presidium of the Duirkora Cabinet; Minister of Oil and Natural Gas in the Development Compartment.  
1966- 1967 - Acting Minister of Mining and of Oil and Natural Gas Affairs.  
1967 - 1968 - Appointed Director General of Oil and Natural Gas and concurrently Adviser to the President in INBANG Affairs and at the same time the President-Director of Permina (later became Pertamina).



1965 - Todate - Governor of OPEC

Decorations:

1. Order of Merit Medal
2. Army Medal
3. Navy Medal
4. Air Force Medal
5. Police Medal
6. Development Medal of Merit





To: Memorandum for the Record

From: Bernard R. Bell

*BRB(ua)*

November 14, 1975

Subject: Meeting of Mr. Bell with Indonesian Delegation to Annual Meeting,  
September 5, 1975

Following on and several days after Mr. McNamara's meeting with the leaders of the Indonesian delegation, Mr. Bell met with Governor of the Bank of Indonesia, Rachmat Saleh and Minister of Finance, Ali Wardhana. No other persons were present. The major purpose of the discussion was to agree on how best to communicate to President Suharto the Bank's plans and views as outlined by Mr. McNamara several days earlier.

It was agreed that the best procedure would be as follows:

- (1) Mr. Bell would draft a personal letter from Mr. McNamara to the President and clear it with Mr. McNamara before he (Mr. Bell) left immediately after the Annual Meetings for Papua New Guinea, Malaysia and Indonesia.
- (2) On arrival in Indonesia he would review the draft with the two and also with Mr. Widjojo to be sure that, without dilution of the content, the phrasing was not counter-productive.
- (3) After final agreement, including Mr. McNamara's if any changes were thought desirable, the letter would be delivered to the President in time for him to read and understand it prior to his meeting with Mr. Bell.
- (4) Mr. Bell would orally express to the President the same message as that conveyed by the letter and would amplify as possible in the conversation.

The balance of the discussion related to a number of operational matters and to the immediate financial problems and plans of the Government. Following this part of the discussion, the three participants joined several members of the Bank staff and of the IMF staff and Mr. Posthumus of the Netherlands delegation to discuss plans for the scheduled November 25 "low-level" meeting of the IGGI in Amsterdam. It was agreed: (1) that the meeting should be "low-level" in the sense that the various representatives of the members, including the Government of Indonesia, the Bank, the IMF and others would be lower level staff than normally attend; (2) that the meeting would last one day only; (3) that its purpose would be only to review developments since the last meeting in June 1975 and to stimulate those aid-givers who had not yet converted their pledges at that time into actual agreements to do so. Mr. Bell emphasized that the meeting would be counter-productive if the brief Bank paper to be prepared and circulated prior to the meeting could not present a full factual account of the situation,

.../2

November 14, 1975

with respect to all external obligations, the handling of the Pertamina obligations, the foreign exchange reserve situation, the impact of all this on the budget and especially the development program. This would also need to be set forth in the GOI and IMF statements at the meeting. It was agreed that this was so and that every effort would be made to provide the facts quickly to the two institutions in time for a November 25 meeting and that this meeting should not be cancelled or deferred.

cc: Messrs. McNamara  
Votaw

BRBell:mjd



To: Memorandum for the Record

From: Bernard R. Bell

*BRB (ea)*

November 14, 1975

Subject: Meeting of Mr. McNamara with Indonesian Delegation to Annual Meeting, August 30, 1975

The leaders of the Indonesian delegation, Mr. Ali Wardhana, Minister of Finance, and Mr. Rachmat Saleh, Governor of the Bank of Indonesia, accompanied by Ambassador Nurjadin called on Mr. McNamara August 30, 1975. For the Bank, Mr. Bell, Mr. Baneth and Mr. Chenery were also present.

114  
Mr. McNamara expressed to the Indonesian delegation: (1) his satisfaction with the economic development which had occurred in Indonesia during the past seven years; (2) his belief that the increased oil revenues afforded Indonesia the opportunity to mount a much larger and more vigorous attack on the problems of poverty in Indonesia and on the effective productive use of its resources; (3) his appreciation of the fact that despite increased oil revenues Indonesia remained a very poor country which would need a considerable inflow of capital from abroad for the purpose; (4) his intention to substantially increase Bank lending to Indonesia. He emphasized, however, that he was disturbed and concerned about the reckless way in which Pertamina in the past year or more had pre-empted and dissipated on low-priority projects poorly conceived, badly arranged and excessively costly a large part of the current and prospective resources. He stated emphatically that the contemplated Bank assistance to Indonesia would not be forthcoming unless this situation was remedied and unless it was clear that it would not be permitted to recur.

The Ministers expressed agreement with Mr. McNamara's views, the Governor of the Bank stating that the Pertamina operation had "set the Government program back several years", and the Minister of Finance saying that it had "set them back to square one". Both explained the very decisive and important steps which had been taken by the President to deal with the situation and to prevent a recurrence. They said it was a difficult situation to deal with, but that the difficulties were being met and that there was no wavering of purpose or in action. The latest step, taken by the President just prior to their departure from Indonesia, was the appointment by the President of General Piet Harjono (Director of the Budget Bureau in the Ministry of Finance) as concurrently Finance Director of Pertamina, and of Mr. Wijarso (Director of the Oil and Gas Directorate in the Ministry of Mines under Minister Sadli) as concurrently Director of Operations in Pertamina and in effect number two to General Ibnu Sutowo in that organization. These steps would, they thought, internalize Government control of Pertamina operations. In answer to Mr. McNamara's question, Mr. Bell said that these were both, in his opinion, men of high competence and absolute integrity.

Mr. McNamara said that he thought it important that his message regarding the Bank's lending plans and the conditions under which they would or would not be fulfilled be communicated to the President. He asked how the

November 14, 1975

delegation thought this could best be done, suggesting they respond either then or later in the week. The delegation stated that they would give thought to the matter and discuss it with Mr. Bell in the course of the week.

The remainder (and the larger part) of the time was then devoted to an exposition by Mr. McNamara of the problems the Bank faced with respect to capital increases and IDA replenishment. He asked for and received assurances of the fullest support for his efforts in these regards.

cc: Messrs. McNamara  
Chenery  
Votaw

BRBell:mjd





To: Memorandum for the Record

From: Bernard R. Bell *BRB (w)*

November 14, 1975

Subject: Meeting of Mr. McNamara with General Ali Murtopo of Indonesia

On October 29, 1975, General Ali Murtopo, an important and influential advisor of President Suharto, accompanied by Ambassador Nurjadin called upon Mr. McNamara. Mr. Bell was also present. General Murtopo was in the United States as the leader of an Indonesian mission to meet with US Government Executive and Congressional figures, with US businessmen and with members of the academic community. The purpose of the mission was generally to convey information regarding Indonesian needs and plans and to encourage aid to and investment in Indonesia. The General had prior to the Mission's arrival, asked for an opportunity to see Mr. McNamara and also Messrs. von Hoffmann and Bell. He had seen Mr. von Hoffmann the day before his meeting with Messrs. McNamara and Bell.

General Murtopo started by conveying the personal regards of President Suharto and expressing his appreciation for the assistance the Bank had given and was continuing to give to Indonesia. He expressed particular appreciation for the Bank's understanding and its efforts to help others understand that despite increased oil revenues, Indonesia was still a very poor country in need of substantial assistance and investment from abroad.

He next asked Mr. McNamara's views on a series of matters, incidentally expressing his own either as he put the questions or in response to Mr. McNamara's statements. Among the questions and statements were the following:

- (1) Did Mr. McNamara agree, as his recent Annual Meeting address indicated, that it was appropriate for Indonesia to concentrate efforts on relieving the "pockets of poverty" which remained, in urban as well as rural areas despite general income and output gains in recent years? He said most emphatically he thought it was and agreed with all that Mr. McNamara had said. (This is interesting in view of the General's role after the January "Tanaka" riots in establishing the official view that these riots were entirely politically inspired and led in a bid for political power by "leftist" elements, in bringing about the arrest, detention and trial of a considerable number of student leaders, newspaper editors, academic figures and many members of the old PSI (Socialist Party) and in doing little or nothing observable to encourage action to deal with the underlying dissatisfactions and resentments the riots expressed.)
- (2) Did Mr. McNamara agree that it was important to develop private enterprise by domestic and foreign investment, to create employment and accelerate development? He thought so.



November 14, 1975

- (3) Did Mr. McNamara agree with his view that all the talk about the "New Economic Order" in various U.N. and other fora was a waste of time and useless, and that strengthening the Bank and IMF which alone could actually act was critically important?
- (4) Did Mr. McNamara intend that the Bank would extend substantial aid to Indonesia? Mr. McNamara used this opportunity to explain our plans, to excoriate Pertamina's recent activities, to express the hope that the steps recently taken by the President would effectively halt and prevent such activity, and that our plans were conditional on this hope being realized. The General applauded our intentions to enlarge lending to Indonesia and did not comment on or react to the comments on Pertamina.
- (5) Other similar questions were put and Mr. McNamara took occasion to speak of our high regard for the wisdom and capabilities of the "Economic Team". The General did not react (though he has been a well-known critic and opponent of the "team" in Indonesia).

In general, the General appeared to be making considerable efforts to be extraordinarily ingratiating although his manner nevertheless conveys a certain arrogance. I have no doubt that his statements and responses (and non-responses) were in accordance with his instructions from President Suharto, who (see my memorandum on my conversation with the latter in Indonesia in September) has evidently decided that the Bank and its attitude toward Indonesia are of great importance.

cc: Messrs. McNamara  
Votaw

BRBell:mjd

Mr. Bernard R. Bell  
(THROUGH: Mr. Bengt G. Sandberg)  
Om P. Nijhawan

October 29, 1975

Lieutenant General Ali Moertopo

1. After graduating from a Dutch secondary school (1941), Ali Moertopo joined the Students' Army, the PBRI (Revolutionary Legion of the Indonesian People, and an armed organization of the Moslem Young Men) as a Private. In 1945-46 as a Non-Commissioned Officer, he participated in putting down the communist uprising ("Three-Region PKI Rebellion").
2. As a Commissioned Officer he was active in guerilla war for National Independence, and again took part against the PKI Rebellion (Madiun Affair). In 1951, he became First Lieutenant. In 1958 he (Major) was active in putting down Permesta Rebellion in West Sumatra, and later joined the Special Operational Command for Liberation of West Irian.
3. In 1963 as Lieutenant Colonel, he was Assistant for Intelligence to the Chief of Staff in West Irian, then Assistant for Intelligence to the Army's Strategic Command for Confrontation against Malaysia (1964). He played a prominent role in achieving political settlement of the confrontation.
4. In 1967 he was with the Army's Strategic Command for crushing the September 30 Movement, the PKI uprising.
5. In 1967, as Colonel he was appointed member of the Personal Staff of the President. He was later appointed as Personal Assistant to the President and was promoted to the rank of Brigadier General. He was also project officer for referendum in West Irian (1969). Promoted as Major General in 1969, he also became Deputy Chief of the (BAKIN), State Intelligence Coordinating Agency, in charge of implementation of 1971 elections.
6. Ali Moertopo influenced the shape of events in Indonesia considerably. He masterminded the successful vote of free choice in West Irian, set up Golkar (the loose centralist coalition on which President could build his authority), organized 1971 general elections which installed Golkar as the dominant political body.
7. After January 1974 disturbances, President Suharto abolished his council of special assistants (ASPRI), dismissed the Chief of State Intelligence Organization (BAKIN), and himself took command for Kapkamtib (the Command for the Restoration of Security and Order). In doing so, the President reassured his own leadership as well as met student's demands. Ali Moertopo was then Personal Assistant for political and special affairs.



October 29, 1975

8. Although Ali Moertopo is no longer a Presidential Assistant, he is still the Deputy Chief of Intelligence Coordinating Agency (BAKIN), and heads a security organization (OPSUS) which he built into a powerful instrument with links in military, business and political spheres. He is a member of the House of Representatives (DPR), Member of People's Consultative Assembly (MPR) and Honorary Chairman, Board of Directors, Center for Strategic and International Studies.

9. Ali Moertopo is regarded as a Suharto loyalist and a nationalist. Events after January, 1974 indicate that the President accepted Moertopo's interpretation of student unrest in that the riots were instigated by PSI (Socialist Party of Indonesia) and Islamia Masjumi (banned by Sukarno) and aimed at toppling national leadership.

10. Though not against the importation of Western Capital and know-how as a nationalist, General Moertopo blames the 'technocrats' for being unduly influenced by Western advisers and private interests. He would like to see a larger role for indigenous private sector and its close alliance with Government on the Japanese pattern. He has been working to strengthen political and economic links with Japan and Australia. These ideas he seems to share with General Ibnu Sutowo whom he has publicly defended several times in the past few months.

11. General Moertopo (now 51 years) has a reputation as an organizer and a political 'fixer.' He is still regarded as having considerable influence on the President.

cc: R.S. McNamara  
G.B. Votaw

OPN1jhawan/BGSandberg:ms

Indonesia :

ALI MOERTOPO

Lieutenant General Ali Moertopo is Deputy Chief of the State Intelligence Coordinating Body (BAKIN); Member, House of Representatives (DPR); Member, People's Consultative Assembly (MPR); and Honorary Chairman, Board of Directors, Centre for Strategic and International Studies.

His governmental appointments have included Member, Provisional People's Consultative Assembly (MPRS); Member, Gotong Royong House of Representatives (DPR GR); and Personal Assistant and member of the Personal Staff to the President of the Republic of Indonesia.

Lt. Gen. Moertopo is the author of the following books: Some Basic Thoughts on the Acceleration and Modernization of 25 Years' Development, CSIS, 1972; Indonesia in Regional and International Cooperation: Principles of Implementation and Construction, CSIS, 1973; National Political Strategy, CSIS, 1974; and Workers and Peasants in Development, CSIS, 1975. He is also the author of various articles on politics, international affairs, development, and energy problems.





MEMORANDUM FOR THE RECORD

From : Jean Baneth

October 7, 1976

Subject : 1976 Annual Meetings -  
Meeting with Indonesian Delegation

Present: Bank: Robert S. McNamara, Bernard R. Bell, Gregory B. Votaw,  
Jean Baneth.

Indonesia: Ali Wardhana, Finance Minister; Rachmat Saleh,  
Governor of Central Bank.

1. Mr. McNamara thanked the Minister for his speech and expressed the hope that Indonesia would continue to help in the efforts to obtain additional resources for the Bank and IDA. He suggested that the Government of Indonesia might do this by bilateral representations, particularly to the United States, and within the Group of 19 in the framework of the North-South dialogue. The Minister responded positively and expressed the hope that the end of the road is near; Mr. McNamara said he thought that after the elections in Germany, Japan and the US decisions and action might finally become possible.

12/18  
2. The Minister then went on to speak of the two very difficult years Indonesia had passed through, as a result of the Pertamina crisis. Foreign borrowing had now been brought under control, and indeed even in the current year total foreign borrowing was likely to remain somewhat below the \$3.4 billion level indicated in the Bank's recent economic report. Indonesia was still hoping to borrow about \$1.4 billion from IGGI sources; it had already contracted about \$500 million of export credits plus \$475 million and \$370 million, respectively, for covering the cost overruns of the LNG and Krakatau plants. It was also expecting about \$150-\$200 million from various Arab and Islamic sources, and about \$280 million from the USSR for the Merica and Saguling hydro power plants.

3. In response to Mr. McNamara's reaffirmation of the Bank's view that public savings needed to be increased, Minister Ali Wardhana replied that public savings this year were running as targeted in the budget estimates. The budget surplus in the first six months of the fiscal year had already reached the Rps. 200 billion target fixed by the budget for the full year. On a question by Mr. Votaw, the Minister remarked that, for increasing tax receipts, the Government was not relying on new taxes but on improved collection.

4. Inflationary pressures are expected to be reduced by this budget surplus and by continued credit restraints - the latter partly offset by the recent increase in foreign exchange reserves. Nevertheless, thus far this year inflation was continuing at a somewhat slower but still higher than targeted rate, possibly on account of particular supply bottlenecks.



October 7, 1976

5. In this connection, Mr. McNamara asked about food supplies. The Minister said that rice production is expected to reach about 15.3 million tons in the current year, having suffered from a prolonged drought. Imports will amount to about 1.2 million tons of rice; Mr. Baneth remarked that a substantial part of imports over the past 18 months has, however, been going to a buildup of stocks rather than current consumption. A major silo construction program has just been completed.

6. Minister Wardhana said that he had one final important point to make, namely, that the Bank resident staff had been immensely valuable and helpful to the Government and that without it they would not have been able to accomplish nearly as much as they had. The Government of Indonesia very much hoped that the Bank should continue to maintain the Resident Staff in Indonesia in its present strength, capacity and responsibility. The Minister mentioned in this connection the recent reduction in the level of Fund representation. Mr. McNamara assured the Minister that no such similar reduction was contemplated by the Bank and that despite the Bank's general efforts to restrain administrative expenditures, so long as the Resident Staff continued to be effective, useful and used by the Government, it would be maintained.

BRB  
JBaneth/BRBell:bcl

cc: Mr. McNamara's Office





## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
(Through G. B. Votaw)

FROM: Bengt G. Sandberg (Chief, Indonesia Division)

SUBJECT: INDONESIA - Your Lunch with Professor Widjojo Nitisaastro  
on Thursday, April 14, 1977

DATE: April 13, 1977

1. Professor Widjojo is 50 years old. He was born in Malang, East Java, and studied at the University of Indonesia and the University of California at Berkeley. He is Professor of Economics at the University of Indonesia and was Dean of the Faculty of Economics from 1964 to 1968. In 1968 he was asked by President Suharto to head his Economic Advisory Team. Professor Widjojo became Chairman of BAPPENAS (Government Planning Agency) in 1966 and Minister of State for Economy, Finance and Industry in 1973. Thus, throughout this period he has been the leader of the "economic team." In the last two years much of his energy has also been devoted to the role as primary spokesman for Indonesia in the North-South dialogue. His main interest has been focused on the discussion of the common commodity fund.

2. Given his deep personal interest in the subject it is likely that Professor Widjojo will seek your views on the state of the North-South dialogue, the present state of opinion in the developed countries and the role of the Brandt Committee. Specific issues that he may bring up include the commodity fund and the general preference question.

3. Professor Widjojo may want to discuss with you the role of the Bank and the size of its lending program over the next several years. Last week he attended the 20th Meeting of the IGGI (Inter-Governmental Group on Indonesia) in Amsterdam during which Mr. Husain indicated that we were likely to have loans totalling some \$536 million ready for consideration by the Executive Directors this fiscal year and about \$550 million in FY78. As of today we doubt the full \$536 million will be committed this year, but the two-year total of nearly \$1,100 million appears reasonably sure. The Regional budget and Five-Year lending proposals contemplate commitments rising from \$640 million in FY79 to \$1,030 million in FY82 (and a Five-Year total of close to \$3,950 million), amounts that we plan to propose with appropriate justification in our next CPP which should be ready for your review by June.

4. In this connection, several delegates to the IGGI enquired about the possibility of resumption of IDA lending to Indonesia. Husain responded that IDA funds were very scarce and had to be allocated to equally poor countries with more serious balance of payments problems. I think Professor Widjojo understands and appreciates the position but may nevertheless raise it with you.

5. Yesterday it was reported that the Dutch press had carried reports that the Dutch Government was considering withdrawing from the chairmanship of the IGGI. We heard nothing about this in Amsterdam, but it is a question that has been raised informally from time to time. Our response has always been that the Bank would be willing to assume the chairmanship provided this was the desire of the Indonesian and Dutch Governments and the IGGI membership as a whole. Professor Widjojo may again sound you out about this.

April 13, 1977

6. Professor Widjojo may also ask your views about the effects of the recent unfavorable coverage of Indonesia by the foreign press. Has this affected the attitude of the Bank's Management and Executive Directors? What about other public and private policymakers in the U.S., in your opinion? As you know these press stories have concentrated on the issues of corruption (particularly in the case of the domestic satellite "Palapa"), litigation over Pertamina tanker contracts, the effect of the Pertamina affair on Indonesia's creditworthiness and the slowdown in oil exploration and foreign investment. In addition there has been some attention given to the question of human rights and the military "absorption" of East Timor, particularly in the European and Australian press. In this connection you will be interested to know that General Ibnu Sutowo is now under house arrest and a number of his close collaborators are either under house arrest or detention. It may also be worth noting that the public reaction of the Indonesian Government and press to the press coverage abroad has been one of angry denials and charges of an international conspiracy to tarnish the reputation of the Indonesian nation as well as President Suharto and his family. While extensive reporting in the Indonesian press of Government denials is a subtle way of informing the public of reports published abroad without incurring the wrath of the censors, the Government is clearly sensitive to criticism in the foreign press in light of the elections scheduled for May 2.

7. As you know, Professor Widjojo is a close friend of Bernie Bell, who visited Indonesia last month at Widjojo's request. Professor Widjojo is likely to express regret at Bell's retirement and hopes for continued close collaboration. I know that there is some nervousness on the part of Indonesian officials regarding the changing of the guard and although the meeting with Husain and Baneth in Amsterdam was extremely cordial, I think that Professor Widjojo would appreciate an indication of your continued personal interest in Indonesia and your full confidence in Bank staff currently assigned to work on Indonesia, both in Jakarta and at Headquarters.

8. Attached for your background information are Mr. Husain's statement to the IGGI and the press release summarizing the proceedings.

Attachments

BSandberg:jw





MEMORANDUM FOR THE RECORD

FROM : Jean Baneth

DATE: November 23, 1977

SUBJECT : 1977 Annual Meetings, Washington, D.C.  
Mr. McNamara's Meeting with the Indonesian Delegation

1. The Indonesian delegation consisting of Messrs. Ali Wardhana, Minister of Finance, Head of the Delegation and Governor of IMF for Indonesia; Rachmat Saleh, Governor of Bank Indonesia and Governor of Bank/IDA/IFC for Indonesia; Arifin M. Siregar, Executive Director, Bank Indonesia, and Alternate Governor of IMF for Indonesia; Julianto Moeliodihardjo, Director-General of Monetary Affairs, Minister of Finance, and Alternate Governor of Bank/IDA/IFC for Indonesia, met with Mr. McNamara at the Sheraton Park Hotel at 9 a.m. on September 27, 1977. Messrs. Knapp, Husain, Koch-Weser and Baneth were also present.
2. Mr. McNamara inquired about the general state of affairs in Indonesia. Minister Wardhana replied that the situation was developing well. Specifically, concerning Indonesia's relations with the Bank, Mr. Husain's visit had been very helpful, as are also the Bank's lending and work programs. There were no major problems in the relationship between Indonesia and the Bank.
3. Mr. McNamara said that the Bank was planning substantial lending in Indonesia and to maintain support, we had to demonstrate continuously that the Government's program truly addressed the fundamental problems of poverty. The need to address this issue was one of the main reasons for our expanded technical and economic work program. We hoped to assist the Government's own efforts, notably in the field of Transmigration. The creation of a new Transmigration division under Mr. Sadove, a senior staff member, underlines the importance we attach to servicing Indonesia's needs in this high-priority area.
4. Minister Wardhana said that the Government was also determined to address these problems. The Bank's interest and support were needed to implement the new strategy towards Transmigration. In particular, help was needed in identifying cultivable land, establishing a suitable organizational pattern, providing transport and other infrastructure. He had just given Mr. Husain a note on Indonesia's most recent efforts in these directions. Mr. McNamara warmly endorsed the new strategy of expanded transmigration targets, which would make a vital contribution towards alleviating the problems of Java. Replicability of the transmigration projects, and therefore the avoidance of excessive costs, were

vital in this context. Even the Bank's own first project may have carried too high a cost per family. Mr. Husain noted that avoiding high costs was closely related to avoiding being unduly ambitious. The transmigrants were generally the poorest people in Java; their incomes could be much increased without seeking to raise them immediately much above the national average. Naturally, the potential for future increases should also be provided. Mr. McNamara concluded by noting that, beyond the target of 500,000 families to be transmigrated in the next plan period, further increases may be contemplated. The very ambitious nature of the target underlined the need to keep per-family costs manageable.

5. Mr. McNamara then asked about Japan's attitude towards increased lending to Indonesia. Minister Wardhana said that at the ASEAN summit meeting, Prime Minister Fukuda had pledged Japan to "look favorably" upon providing up to \$1 billion additional financing for ASEAN, provided sound projects were there. Mr. McNamara hoped that a large share of this would accrue to Indonesia. Mr. Husain noted that Japan had pledged a substantial increase in its commitments to Indonesia; the matter should again be discussed with the Japanese before the next meeting of the IGGI.

6. Mr. McNamara said that despite earlier resolutions in its favor, notably by the London Summit, the general increase of the Bank's capital had not yet been implemented. This was needed by early next year at the latest, in order to provide the appropriate foundation for increased lending. Additional paid-in capital would not be needed until 1983-84, and the amounts were small. While the Bank's management had not named a target figure for the proposed general capital increase, roughly \$40 billion would be needed to allow continued expansion of the Bank's lending at an annual rate of 7% in real terms. This closely corresponds to the suggestion made by the Governor for the Netherlands that the Bank's capital be raised by about 100%, which would be about \$38 billion. President Carter and several governors had referred to the general capital increase in their speeches. If a consensus emerged during the meeting, Mr. McNamara would call an informal meeting of the Executive Directors on October 4 to set up a time schedule.

7. Minister Wardhana returned to the Indonesian situation, noting that though the economy was now in generally good health and promising further progress, one remaining area of major concern was that of food production; 1.5 million tons of rice had been imported last year, and the figure could again be reached this year. Governor Saleh explained that the main problem was that of pest infestation. Mr. Husain, noting that the problem was rendered particularly acute by the year-round cultivation practiced in Indonesia, which never provided any break in the pests' breeding cycle, added that the Bank has been examining this problem and is gearing up to help deal with it, notably by means of a



November 23, 1977

second agricultural research project, now under preparation.

8. Mr. Knapp having referred to the decision again to allocate IDA to Indonesia, Mr. McNamara noted that various Part I countries, notably Australia, the United States and Japan had expressed their satisfaction with this decision. The Philippines and Thailand were also eligible again, but Indonesia's share would be much more important. Furthermore, in part because Indonesia was an oil exporter, much more attention is focused on it. Hence, it was all the more important to demonstrate that the funds channelled to Indonesia were used to promote development which benefitted all the population, including the very poor. Minister Wardhana expressed his full understanding of this aim.

cc: Messrs. Knapp  
Husain  
Koch-Weser

JBaneth:bcl



## OFFICE MEMORANDUM

URGENT

TO: Mr. Robert S. McNamara

DATE: September 26, 1977

FROM: S. Shahid Husain

SUBJECT: Your Meeting with the Indonesian Delegation  
on Tuesday, September 27, 1977

1. You are meeting the Indonesian Delegation on Tuesday, September 27, 1977. In our earlier brief to you we had mentioned the delay in negotiating a small enterprise project. I have since had discussions with the Finance Minister and the Governor of the Bank of Indonesia, and suggest that in your meeting you do not raise the specific issue of delay in this project. I expect to resolve the specific issues at my level.

2. There is a broader issue which would be more appropriate for discussion in your meeting. We are planning a substantial expansion in our lending program in Indonesia and this lending can be justified only on the basis of continued creditworthiness of Indonesia and our increasing contribution to the alleviation of poverty in the rural and urban areas. All poverty programs relate to a large number of people and, as such, they have delicate political and social aspects, and there is no way of financing an anti-poverty program without encountering political sensitivities; such is the case with the proposed program for small enterprises in Indonesia. What you should say to the Indonesians is that we are very conscious of this and, therefore, they and we should continue to explore ways and means of cooperation despite these sensitivities. You may wish to underline that there is no hope of a significant expansion of Bank lending without an important part of it being lent for poverty programs.

3. I would also suggest that the tenor of your remarks should be reasonably positive. The Indonesians have listened to the Bank. They have, in IGGI and elsewhere, given great weight to our views and analyses and, in my mind, they have made a genuine effort to mobilize domestic resources and to improve the over-all management of their external economic relations. I think that with the extensive economic work we are planning in Indonesia, there is a good prospect of carrying our dialogue further. Again, I would suggest that you underline to the Indonesians the need for very close cooperation in the analysis of the issues of economic and development policy.

cc: Messrs. Knapp  
Baneth

SSHusain:bcl