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McNamara Papers

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1771083

A1993-012 Other #: 9

209345B

Contacts with member countries: Indonesia - Correspondence 01

Contacts
Indonesia (1958-1971)

A1993-012
Box 9

Folders 46

DECLASSIFIED
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INDONESIA

INDONESIA

1. 4/29/68 Professor Widjojo, Dean of the Economic Faculty, University of Djakarta; Chairman, Indonesia's National Development Planning Agency (BAPPENAS); Director, Economic and Social Research Council (MIPI)

Accompanied by Professor Salin and Ambassador Soedjatmoko
- 5/13/68 Ambassador Soedjatmoko
2. 6/12-15/68 Sultan Hamengku Buwono IX (Sultan of Jojakarta), State Minister
(Djakarta) Prof. Widjojo
Dr. Ali Wardhana, Minister of Finance
Dr. Soemitro Djojohadikoesoemo, Minister of Trade
Dr. Frans Seda, Minister of Communications
Dr. Radius Prawira, Governor, Bank of Indonesia
Prof. Dr. Mohammad Sadli, Chairman, Foreign Investment Board
Dr. Emil Salim, Deputy Chairman of BAPPENAS
3. " President Suharto
4. " Ambassadors of Interdepartmental Group for Indonesia
5. " Adam Malik, Minister of Foreign Affairs
6. " Summary of Problems of the Indonesian Economy Based on Discussions held June 12 and 13, 1968, as prepared by the Indonesians
" Principal Conclusions on Indonesian Economic Problems, as prepared by the Indonesians
" Speaker Nasution, House of Representatives
7. " Student Leaders, including Sumantri Brodjonegoro, Rector of the University of Indonesia and Minister of Mines
7. " Guest list at Ambassador Green's dinner
- 6/19/68 Ambassador Soedjatmoko - lunch at the Bank
- 9/28/68 Prof. Widjojo
- 10/4/68 Dr. Ali Wardhana, Minister of Finance. ~~Bel~~
8. 11/29/68 General Ibnu Sutowo, President/Director of PERTAMINA (National Oil and Gas Company)
Mr. Hasmoro, PERTAMINA representative in NYC
General Suhardiman, Indonesian Consul General in NYC
9. 5/7/69 Ambassador Soedjatmoko
10. 9/29/69 Dr. Ali Wardhana, Minister of Finance
Radius Prawiro, Governor, Bank of Indonesia
Djoeana Koesoemahardja, Deputy Governor, Bank of Indonesia

11. 5/27/70 President Suharto
Adam Malik, Minister of Foreign Affairs
Prof. Widjojo
Ambassador Soedjatmoko

5/27/70 Prof. Widjojo
12. 8/3/70 Dr. Sumitro Djojohadikusumo, Minister of Trade
13. 9/22/70 Ali Wardhana, Minister of Finance
(Copen.) Radius Prawiro, Governor, Bank of Indonesia
Suwito Kisumowidagdo, Ambassador to Sweden
14. 9/29/71 Ali Wardhana, Minister of Finance
Radius Prawiro, Governor, Bank of Indonesia
15. 2/25/72 Ambassador Sjarif Thajeb

4/17/72 Ali Wardhana, Minister of Finance (with Committee on ED Remuneration)

5/3-5/72 Soedjatmoko, National Development Planning Agency
(Bellagio)
16. 5/30/72 Franz Seda, Minister of Transport and Communications (with delegation
from Coordinating Committee of Southeast Asian Senior Officials
on Transport and Communications (COORDCOM))
17. 6/14/73 Ambassador Thajeb
Prof. Mohammed Sadli, Minister of Mining
18. 7/24/73 General Ibnu Sutowo, Pertamina Oil
Amb assador Thajeb
Colonel Benson, US Representative to Pertamina
19. 2/16-19/74 RMcN Notes on visit to Indonesia (*Filed in RMcN office*).

2/16/74 Dinner with Soedjatmoko
(Djakarta)
20. 2/16-19/74 Professor Subroto, Minister of Manpower, Transmigration, Cooperatives
(Djakarta) Radius Prawiro, Minister of Trade
General Arifin, Head of Logistics Agency
Prof. Sukowati, Minister of State for People's Welfare
Dr. Siwabessy, Minister of Health
Mintaredja, Minister of Social Affairs
General Sjarif Thayeb, Minister of Education and Culture
Prof. H.A. Mukti Ali, Minister of Religious Affairs
Dr. Suewardjono, Chairman of National Family Planning Coordination Board
Prof. Hafid
Dr. Raganathan

Professor Widjojo Nitisastro, Minister of State for Economic, Financial
and Industrial Affairs
Ali Wardhana, Minister of Finance
Professor Mohammed Sadli, Minister of Mining
Rachmet Saleh, Governor of the Bank of Indonesia

(Cont'd)

- 2/16-19/74
(Djakarta)
(Contd)
- Prof. Thajib Hadiwidjaja, Minister of Agriculture
General Andi Mohammad Jusuf, Minister of Industry
Sutami, Minister of Public Works and Electricity
Dr. Emil Salim, Minister of Communications
- Sujono Sosrodarsono, Director General of Water Resources
Mr. Poernomisid, Director General of Highways
Ir. Rachmat Wiridasuria, Director General of Housing, Planning
and Urban Development
Abdul Kadir, President Director of the National Power Co.
Agus Sujono, Director General of Chemical Industries
21. 2/19/74
(Djakarta)
- President Suharto
Rachmat Saleh, Governor of Bank Indonesia
Ali Wardhana, Minister of Finance
- 4/5/74
- Ambassador Sjarif Thajeb (farewell call)
22. 10/1/74
- Ali Wardhana, Minister of Finance
Rachmat Saleh, Governor, Bank Indonesia
Julianto Moeliodihardjo, Director General of Monetary Affairs,
Ministry of Finance
J. E. Ismail, Executive Director, Bank Indonesia
Saleh Afiff, Deputy Chairman, State Planning Bureau
23. 1/17/75
- Ali Wardhana, Minister of Finance
Rachmat Saleh, Governor, Bank Indonesia
24. 1/31/75
- Ignu Sutowo, President of PERTAMINA
Ambassador Rusmin Nurjadin
Rex Hasmoro, PERTAMINA Representative in New York
Colonel George C. Benson, PERTAMINA Representative in Washington
- 3/3/75
- Sir Sultan Hamengku Buwono IX, Sultan of Jogjakarta and
Vice President of Indonesia (Breakfast at home)
25. 8/30/75
- Ali Wardhana, Minister of Finance
Rachmat Saleh, Governor, Bank Indonesia
Byanti Kharmawan, Executive Director, IMF
Ambassador Rusmin Nurjadin
(Also memo of meeting with Mr. Bell)
26. 10/29/75
- Lt. Gen. Ali Moertopo, Deputy Chief of the Intelligence
Coordinating Agency (BAKIN)
Ambassador Rusmin Nurjadin
- 1/6-10/76
(Dev.Cte.,
Kingston)
- Rachmat Saleh, Governor, Bank of Indonesia
27. 10/5/76
(Manila)
- Ali Wardhana, Minister of Finance
Rachmat Saleh, Governor, Bank of Indonesia
(Minutes filed Singapore)
- 10/7/76
- Ali Wardhana, Minister of Finance)
Rachmat Saleh, Governor, Bank of Indonesia) (with ASEAN Group)
(Minutes filed Singapore)

28. 4/14/77 Widjojo Nitisastro, Minister of State for Economy,
Finance and Industry
- 6/6-9/77 Suwardjono Surjaningrat, M. D., Chairman, National Family
Planning Coordinating Board
- 6/13/77 Byanti Kharmawan, Executive Director, IMF
29. 9/27/77 Ali Wardhana, Minister of Finance
(Annual Meeting) Rachmet Saleh, Governor, Bank Indonesia
Arifin M. Siregar, Executive Director, Bank Indonesia
Julianto Moeliodihardjo, Director General, Monetary Affairs,
Ministry of Finance
30. 8/7/78 Nitisastro Widjojo - Chairman, National Planning Agency (Bappenas)
Ambassador Ashari
31. 9/26/78 Ali Wardhana, Minister of Finance
Annual Meeting Soegito Sastromidjojo, Dir.Gen. International Monetary Affairs
D. Ashari, Ambassador
Rachamat Saleh, Governor, Bank Indonesia
Arifin M. Siregar, Managing Director, Bank of Indonesia
- 32/ 12/4/78 Dr. B.J. Habibie, Indonesian Minister of State for
Research and Technology
Ambassador Ashari
33. 4/9/79 Mr. Mortono, Jr. Minister for Transmigration
Dr. Saleh Afiff, Dep. Min. for Economic Affairs, BAPPENAS
Amb. Ashari
34. 5/10- RMcN Notes *(Filed in RMcN office)*
5/15/79
(Indonesia)
35. " Soedjatmoko
Mr. Sadli, former Minister of Mining
Mr. Seda, former Minister of Communications
Mr. Sarbini, Economist
- Adam Malik - Vice President
Professor Selo Sumardjan
- President Soeharto
Basjuk Slamet, Head of the Palace Protocol
Finance Minister Ali Wardhana
Rachmat Saleh, Governor of the Central Bank
- Emil Salim, Minister of State for Environment and Development
Ir. Soehoed, Minister of Industry
Professor Ir. Habibie, Minister for Research and Technology
Professor Subroto, Minister for Mines and Energy
General Pangabean, Coordinating Minister for Political and
Security Affairs
Dr. E. J. Sinaga, Private Secretary to Minister Pangabean

35. 5/10-
5/15/79
(Indonesia)
(con't)

Bank Indonesia

Minister of Finance Ali Wardhana
Governor Rachmat Saleh
Minister of Trade and Cooperatives Radius Prawiro
Minister of State for Admin Reform Dr. J. B. Sumarlin
Minister of Public Works Dr. Ir. Purnomosidi
Minister of Agriculture Professor Ir. Soedarsono Hadisapoetra
Minister of Manpower and Transmigration Professor Dr. Harun
Alrasjid Zain
Junior Minister for Transmigration Martono

Ministry for Social Welfare

Coordinating Minister for Social Welfare General Surono
Junior Minister for Women's Affairs Mrs. Lasijah Soetanto
Secretary to the Coord. Minister Mr. Satibi Darwis
Third Asst to Coord Minister Mr. Hidayat Mukmum
Professor Dr. Setijadi from Ministry of Education
Dr. R. Bahrawi Wongsokusumo from Ministry of Health
Dr. Subekti, Director General of Community Health
Dr. Sugeng Supari from Ministry of Social Affairs
Dr. Henri Pardoko from Ministry of Social Affairs
Mr. Drajat, Head of the Planning Bureau
Director General for Islamic Affairs Dr. H. Kafrawi (Ministry
for Religious Affairs)

36. 10/1/79
(Annual
Meeting)

Ali Wardhana, Minister of Finance
Rachmat Saleh, Governor, Bank Indonesia
Soegito Sastromidjojo, Director Gen. for International
Monetary Affairs, Min. of Finance
Arifin Siregar, Managing Director, Bank Indonesia

3/31/80

Soedjatmomo - Lunch at Tracy Place

11/11/80

Soedjatmoko - Dinner at Harrimans'

37. 9/30/80
Annual
Meeting

Minister of Finance Ali Wardhana
Rachmat Saleh, Governor, Bank Indonesia
Soegito Sastromidjojo, Dir.Gen., International Monetary Affairs,
Min. of Finance
Amb. Ashari



OFFICE MEMORANDUM

TO: Mr. Rainer B. Steckhan

FROM: J.M. Jentgen

SUBJECT: Indonesia - Visit of Professor Widjojo

DATE: April 25, 1968

With reference to your request to Mr. Goodman, following are biographical notes on Professor Widjojo:

Personal Data: In his early forties; married, one child.

Education: Ph D in Economics (1962) from University of California where he studied under a Ford Foundation grant. He is known to have a special interest in demography but considers himself to be a general economist. His command of English is good.

Present Position: Dean of the Economic Faculty of the University of Djakarta; Chairman of Indonesia's National Development Planning Agency (BAPPENAS); a director of the Economic and Social Research Council (MIPI). As Chairman of BAPPENAS he is directly responsible to President Suharto and a de facto member of the cabinet.

Previous Functions: Leader of the Indonesian delegation to the 1955 ECAFE Conference and to the 1963 ECAFE Population Conference; leader of the Indonesian delegations to recent inter-governmental meetings on Indonesian Debt and Assistance.

Professor Widjojo is considered to be the leading economist in Indonesia and is respected among professional economists. He is a close adviser to President Suharto with whom he sided from the start against Sukarno. ~~He is known by the following in the staff: Messrs. Cargill, McIver, Brakel, Matter, McDiarmid.~~

cc: Mr. Brakel

JMJentgen/rf

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: William Clark *mm*

SUBJECT: Indonesian Conversations

DATE: June 27, 1968

At our last formal meeting with the Sultan, you summed up the conclusions that you had arrived at during our visit:

You said that there was no more deserving country that you knew of than Indonesia. It needed assistance and it had taken the right steps to ensure that assistance would be made good use of. There was at the moment a correct emphasis in the development program on food production and import substitution.

But there was at present a world shortage of aid money. Loans from any source were extremely difficult, not least from the World Bank itself in view of Indonesia's debt problem in relation to hard loans, and in view of the delays in replenishing IDA in relation to soft loans.

However, technical assistance from the Bank was possible and this would be given by a resident mission under Bernard Bell, one of the most senior and respected members of the Bank's staff. This would include help in the rehabilitation of irrigation for the rice paddies, and here it was possible that the World Bank would be able to provide soft loan finance of up to \$4 million. We would also try and help with technical assistance to expand fertilizer production, at least at the design stage. Further, we could perhaps help to coordinate somewhat the flow of aid and technical assistance from the inter-governmental group (IGGI).

The Minister of Industries at once raised the question of how far the Bank could help in the rescheduling of debt. This was a most urgent matter. You took note of his remark.

You said that we should start on the legal aspects of making irrigation loan and carrying on irrigation work within the next 10 days, and the whole process might be tied up by July. On fertilizers, you said that it is your understanding that the U.S.AID might

*Reg
July with
conclusions
consideration*

June 27, 1968

pay for studies that were necessary if they are undertaken by the Bank.

Dr. Sumitro forcefully made the point that the people were getting very impatient, unless there were signs of external assistance, and signs of development that was helpful to ordinary people. Indonesia might need to accept hard loans, or even suppliers credits, since the debt problem was a lesser problem than popular revolt.

Franz Seda raised the matter of the importance to Indonesia of getting debt rescheduling for a much longer period than three years at the next meeting of the intergovernmental group which is to be held in October in one of the creditor countries. You took note of his suggestion.

There were a number of questions pressed upon you about what the Bank would do once it had IDA funds at its disposal. You parried these questions and did not give any direct promise or suggestion of where such funds would flow, while leaving the impression that Indonesia was a very deserving case that would not be forgotten by you.

Mr. Robert S. McNamara

June 27, 1968

William Clark

Indonesian Conversations

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cc. Sr. Denis Rickett
Asia Department
Bernard Bell

WClark/afw

6/22-15

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 20, 1968

FROM: William Clark *Wm*SUBJECT: Conversation With Sultan of Jogjakarta, and Economic Ministers

We were a few moments early for our appointment with the Sultan, and therefore had a short rather private conversation with him before he was joined by ~~serious~~ Economic Ministers who work under his general guidance. We gained the impression that because of his seniority and long experience the Sultan was still in effective charge of the economic affairs of the Indonesian Government, but that in the recent reshuffle Mr. Sumitro, who had become Minister of Trade, was a growing influence on the Economic Ministers, several of whom had been taught by him in their younger days. It was also in general apparent that while the Sultan favored a continuance of the liberalization program which had been put into effect under IMF guidance, Mr. Sumitro was more inclined to regard the present failure of a sufficient flow of aid as justifying our return to import quotas and a dirigiste approach. The Sultan began by mentioning the need that Indonesia had for financial assistance in building an aluminum smelter based on the bauxite supply in Sumatra, and power derived from a large hydroelectric project. This dam would also supply irrigation for rice estates. The surveys on all of this were almost complete.

The Sultan then, however, pointed out that the five year plan which would end in 1972 was 90% for rehabilitation. There was a great need for rehabilitation, e.g., on the railways, telecommunications, shipping, etc.

In response to a question from you the Sultan said that the supply of aid from various external sources was coordinated by BAPPENAS, but he added that it was new to the job, and not very efficient. He would warmly welcome Bank help in this coordination of aid.

He also hoped that the large amount of technical assistance given by various UN and bilateral bodies would be implemented with World Bank help. At the moment there are a large number of plans, but no money to carry them out.

The Sultan said that he was having to cancel quite a large number of projects which were already well under way, because they had been so badly planned. He cited several east European projects such as a Russian steel plant which simply could not produce any steel, a paper pulp plant which was situated upstream from the point in which the logs could be

floated, and a Czech sugar plant which was extremely inefficient. The Sultan then went on to stress the extreme importance of agriculture, and the great hope that had arisen as the result of the new and more effective seeds brought from the Philippines. He gave us a preview of the state of agriculture and its importance in Indonesia, which was confirmed at the meeting the following morning of which we have received a separate record from the Indonesians. The Sultan and his Ministers went on to describe the extreme difficulties which Indonesia faced due to inflation. They pointed out that the budget had been balanced or almost so for the first time in 1967. But they were still stuck with an enormously inflated civil service which devoured Government revenues. They had increased direct taxes eightfold in 1967 and indirect taxes fourfold, but even so very little money was left over for development after the payment of wages and a rice ration to civil servants and their families.

Ministers freely admitted that last year (partly, they hinted, at the insistence of the IMF) they had cut their imports of rice too drastically to save foreign exchange, and as a result the price had skyrocketed during the last months of 1967 and the early months of 1968 since they had to buy rice in the commercial market in order to keep their contract with the civil service and others this had resulted in a sharp rise in the cost of living, and sharp inflation.

It was at this point that Mr. Sumitro began his complaints that the IMF policies were really too liberal, and cut into the amount of money which was available for development. He said that so long as the price of commodities fell and foreign exchanges fluctuated, and there was no certainty about the supply of aid it was really impossible to carry out the development plan. He pointed out that Indonesia had been led to expect something like US\$325 million in aid during 1968, and with almost six months of the year gone only US\$15 million had been received. Really, he said, unless the donors can treat us more considerately it will be impossible to continue to fulfill the demands for liberalization of the IMF, and I shall have to reintroduce trade quotas and exchange control. What was needed, he added, was a buffer stock of rice to keep down its price, and of finance to stop the rupiah from losing its value on the exchanges.

He pointed out that owing to the liberalization of trade the extremely scarce foreign exchange of Indonesia was largely being spent on consumer goods with the result that the imports of raw materials, e.g., yarn were very much reduced, and therefore exports of textiles were reduced. Over the past ten years Indonesia's export earnings had fallen by two-thirds, and the result was a drastic slowing down of development.

The Chairman of the Central Bank explained some of the difficulties that arose over using United States aid which was tied. In essence the difficulty seemed to be that they could not persuade private importers to buy fertilizers in the United States where they were more expensive, and therefore large amounts of American aid were not in fact being used at all.

You asked that the Indonesian authorities should supply you with a list of the goods that they would like to buy with their leftover American aid. These lists have now been made available.

The Ministers further explained their desire to get more wheat under PL480 from America. They also mentioned that there was considerable difficulty in getting wheat properly used, since it did not all together suit the dietary habits of many Indonesians. They were nonetheless very anxious that as much wheat as possible should be made available before January which was the peak of the shortage period for cereals.

Mr. Sumitro summed up by saying that "everyone is anxious to help us, but no one is willing to promise us anything different from the present, which is that aid is dependent on availability rather than on our needs". This, he said, made planning very hard indeed. He asked whether the World Bank might help them negotiate with the governments, and increase the amount of useful aid that would flow particularly from Japan and the United States.

3

6/22-15

OFFICE MEMORANDUM

TO: Mr. Robert McNamara

FROM: William Clark *WKC.*

SUBJECT: Conversation with President Suharto

DATE: June 20, 1968

President Suharto received us in the modest front parlor of his own home which he uses as his office. After an exchange of compliments he explained the needs of Indonesia as he saw them.

These needs were primarily to reconstruct and rehabilitate the economy of Indonesia which had been ruined by the mismanagement of the previous five years. If this were not done, or if the reconstruction were unsuccessful the communists would take advantage of the failure to stir up trouble again. It was necessary therefore to move at a gallop, not a canter.

Apart from rehabilitating the infrastructure of the country the other great need was to stabilize the monetary situation. Here the burden of debt which had been run up by the previous Government was the real problem, and it was only very temporarily settled until 1971. In both rehabilitation and stabilization Indonesia recognized its great need of help from abroad and particularly from the international bodies.

The economic development plans of Indonesia took in particularly food production, house building, school building, and the creation of jobs. Of these the first essential was the creation of a better agriculture. This needed fertilizers, insecticides and the education of farmers.

About half of the work in farming that needed to be done could be done by the Indonesians themselves but they would need external help with the other half. For instance their current need was for 200,000 tons of fertilizer, and they produced only 100,000. At the moment they either needed the fertilizer or the foreign exchange to buy it. In the long run they needed assistance to produce the fertilizer for themselves. In the education of farmers the students were used extensively, and they were introducing the new seeds which had come from Los Banos in the Philippines.

Another need in agriculture was to rebuild and rehabilitate the irrigation system which had been broken up as well as neglected by the communists. With good irrigation and with the cutting down of some unnecessary forest and the draining of some swamps, something like forty million hectares of extra land could be made available for rice

June 20, 1968

production in the next twenty years. This could produce 120 million tons of rice extra, but by the time this amount was produced the population would have risen from 115 million to 200 million. Even so by the end of the century Indonesia ought to be able to export rice.

All plans for Indonesia's development should focus on agriculture, but industry must also be developed to back up agriculture, e.g., by producing fertilizers and tools. It is also necessary to develop mining, forestry, and fishing.

The richness of resources in Indonesia was almost unparalleled, and the President said that he was looking forward to increased foreign investment in the country. He hoped the Bank would make an appraisal of the possibilities of development in Indonesia in both the long and the short term. With the Bank's prestige he felt that such an objective survey could induce considerable investment from abroad in Indonesia.

On our last day we again called on President Suharto and you gave him a very favorable account of our talks with Ministers, emphasizing the high respect you had for their qualities. You stated the Bank's intention of establishing a resident mission, and gave copies of the exchange of letters between yourself and the Sultan, and the draft text of what you intended to say that day to the press conference. You further mentioned the high quality of the mission that you hoped to send, and concluded by reminding the President that there would be problems concerned with housing these people, and that you hoped for help from the Government.

In response the President said that your mission had had a double impact on public thinking:

1. It should help to encourage donors to give more aid to Indonesia;
2. domestic opinion in Indonesia would be convinced that the Government was really getting ahead with development and was concentrating on that as their number one task.

You commented on the length of time that it would take for progress to become apparent, and in conclusion the President gave us assurances that he would not allow any over-optimistic promises to be made to the people.

4

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: June 24, 1968

FROM: William Clark *Wm*

SUBJECT: Meeting With the Ambassadors from the Intergovernmental Group
for Indonesia

The French Ambassador at your request opened the talk. He said he was delighted that you had said that the implementation of policies was now needed, since the right decisions had been taken. He was also glad to learn that the Bank would help in planning and management, management help was by far the most important need of Indonesia. What really was necessary was that Indonesia should be restructured for a modern industrial society.

The Australian Ambassador spoke next. He paid tribute to the planning staff in Djakarta, but said that the difficulties which remained were enormous. A great deal more staff work was especially needed on most of the projects. Bank help on this planning side was very much to be welcomed.

The Netherlands Ambassador. The great bottleneck in aid to Indonesia is the lack of any coordination to avoid overlapping.

The Japanese Ambassador: agreed on the importance of coordination also of projects.

The American Ambassador also gave general welcome to the Bank's role. In a brief exchange with the Australian Ambassador they both agreed on the extreme importance of speed in setting up the mission and speed in giving help to the plan and projects.

Mr. Sumitro, the Minister of Trade, intervened to repeat his earlier line about the urgency of actually getting the aid which had been promised. He pointed out that the delay in using U.S. aid was not an argument for Indonesia's inability to absorb aid, it was because U.S. aid was extremely difficult to digest because of its tying. He pointed out the great difficulty of any forward planning when the availability of loans is not certain. "Aid is not the sole requisite of development but it is an essential." The institutional impediments to development which undoubtedly existed in Indonesia were tremendously aggravated by this uncertainty about aid. The next six months were crucial for the implementation of future plans, but they must have a clear certainty of food reserves if disastrous inflation was to be avoided. In recent months the reserves had been used up on buying rice in the open market. For this reason a financial buffer stock was needed against the gnomes of Hong Kong; this was as necessary as a buffer stock of rice. "If the next two quarters are going to be coped with efficiently by us I cannot recommend continued liberal policies and policies

of easy convertibility of the ruppiah. I am already considering some form of import control." (These import controls were indeed introduced four days later.)

The Italian Ambassador explained at some length that Italy also had problems of development, which perhaps helped to explain the long delay in his debt rescheduling. The World Bank should help to get private and governmental investment in Indonesia, and prevent their overlapping.

The Finance Minister explained that increases in the routine budget of the country had been financed by unpopular taxes, e.g., that on gasoline. The balancing of the development budget was a great deal more difficult since only one-eighth of the aid which had been expected had come in during the first five and a half months of the calendar year. This has threatened the "ceilings" laid down by the IMF.

5

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: June 24, 1968

FROM: William Clark *W.C.*

SUBJECT: Statement to Mr. Adam Malik, Indonesian Foreign Minister

I accidentally omitted from my memorandum on your conversation with Mr. Malik your own opening statement, which was in brief as follows:

"We are here at your invitation to see whether and how we can help Indonesia. The World Bank is a development agency even more than it is a bank. We attempt to assist those who require help, and who can use it efficiently. I am encouraged by your leadership and the Ministers who are in charge of economics.

This program will demand unpopular decisions, and you have shown the courage necessary to take them, e.g., to reduce corruption, advance efficiency, etc.

I am anxious to show by my first visit as President of the World Bank the importance of Indonesia with its great potential, wealth and large population. I am ready to put in a resident mission as a sign of confidence and support, a sign which will be read by the western world as well as by Indonesians."

(This statement was roughly speaking a repetition of what you had just said at the end of your interview with President Suharto.)

were dubious about any compromise in Viet Nam.

He mentioned that Indonesia had some difficulties with Singapore because of the way in which the Chinese population had been treated in Indonesia.

Speaking of the army Mr. Malik hoped that they would stay out of business, but hoped that they would help development by building roads, repairing agricultural implements, helping with shipping, and above all by keeping honest and appearing so. He mentioned that over 50% of the army was in Java. He added that the British withdrawal from the Far East was of no great importance except for its impact on the budget of Singapore.



SUMMARY OF PROBLEMS OF THE INDONESIAN ECONOMY
BASED ON DISCUSSIONS HELD JUNE 12 AND 13, 1968
AS PREPARED BY THE INDONESIANS

I. GOVERNMENT FINANCE.

1. In 1966 Government expenditures were Rp. 29 billion and Government revenues were Rp. 13 billion; the deficit amounted to Rp. 16 billion. In 1967 the principle of balanced budget was adopted and maintained, resulting in a deficit of only Rp. 3 billion, with Rp. 87 billion expenditures and Rp. 84 billion revenues.

The main problem is to close the deficit in spite of rising prices.

2. Revenues from direct taxes in 1967 rose to 8 times compared with 1966, whereas revenues from indirect taxes rose to only 4 times.
3. In 1967 the counterpart funds out of foreign aid were used for routine expenditures. In 1968 routine expenditures have to be covered by internal revenues, and the counterpart funds will be used for development purposes.
4. Our main problem is the large number of government employees (including armed forces and employees of autonomous regions) and the dependents, which amount to 5.5 million. Their salaries and rice rations constitute a large proportion of the budget. The I.M.F. keeps close watch on the budget. Quarterly reports are examined. Overshooting the planned expenditures endangers the drawing limits from I.M.F.
5. Inflation rate in 1967 up to August was relatively low. The basic mistake was the Government buying of rice which took place too late. As a result, the rising prices during the last quarter got out of hand.
6. Inflation rate for January 1968 was 40%. After that the average was 5% monthly. The increase of the gas price to 4 times last April resulted in a general price increase of 5.9% in May.

II. FOREIGN AID.

1. This year Indonesia plans to import 600.000 tons of rice, of which 200.000 tons will come from P.L. 480, and the remainder will have to be imported with our own foreign exchange. In addition we need some 500.000 tons of wheat flour. Normally we import 1.200.000 tons of rice annually. The import this year will not saturate the market but will limit the rise in prices.
2. There is a definite interrelationship between rising prices of rice and rising exchange rates. As soon as the shortage of rice was felt during the last quarter of 1967, speculators went to buy foreign exchange anticipating cash imports of rice by the Government. This resulted in a sharp increase of the exchange rate. What we need is a Government controlled stock of rice (with wheat as a supplement). In addition we need an equalization fund to keep the exchange rate stable and to make the Rupiah convertible.

3. The target of our monthly exports in 1968 is \$46 million excluding over-prices. During the first five months the average of our realized exports is \$32.5 million. This was the consequence of the destabilizing price rises of rice and foreign exchange, which resulted in inventory hoarding and smuggling.
4. We have entirely gone away from import licensing since October 1966. If we do not get aid sufficiently and in time, we may have to resort to licensing and quotas again, even though we do not want this.
5. Out of the \$236 million of aid committed for 1968, so far only \$15 million has been disbursed and sold to importers. Aid from the U.S.A. has to go through a time-consuming administrative procedure. In addition, U.S. commodities are not competitive due to distance and higher prices. The U.S. has pledged \$110 million, out of which \$25 million will be sold under the BE system. Originally this \$25 was earmarked for busses and trucks for the city Djakarta. The U.S. government did not agree. Then thought has been given to use it for Urea fertilizers. But the U.S. is actually a net importer of Urea and the price of Urea in the U.S.A. is much higher than elsewhere. The next idea was to buy the Urea offshore. At that point Grace offered to help, but the U.S. Government could not approve. The U.S. Government then offered Urea. We cancelled Grace's offer. But then the U.S. Government withdrew their offer. We then decided to make use of Grace's credit. We now plan to use the \$25 million for insecticides, material to make sprayers, and trucks (for transportation of wheat and fertilizers).
6. The \$20 million over and above the \$110 million would be most welcome. Its use will be programmed soon.
7. The U.S. Government has not given any indication to give the 500,000 tons of wheat flour (\$50 million) requested by Indonesia. With an adequate price differential between rice and wheat, people will use more wheat. The bulgur ration for Government employees may be substituted by wheat, and bulgur can be sold on the market since people are more or less used to eating bulgur. In addition some wheat may be transformed into artificial rice. Other uses of wheat may be stimulated. This is the reason why we request some cooking oil from P.L. 480.
8. There was an informal understanding with the Japanese Government that Japan would give \$110 million in aid. Out of this \$110 million \$80 million would be disbursed this year. We would prefer \$90 million.
9. The commitment of the U.S. Government to give \$110 million and additional aid amounting to \$20 million and \$50 million are contingent upon the willingness of Japan to give \$110 million.
10. We realize that external aid should not be the determinant of economic development. Speedy implementation of it now is most urgent. What we need is:
 - a. food bufferstocks;
 - b. foreign currency reserves

Late and irregular aid has a bad influence on the monetary situation and on the stability of the exchange rate.

11. The Development Budget relies on aid from the donor countries. We expected a realization of 19% during the first quarter and 40% in the second quarter, but very little has been realized. As a consequence we have to reduce development activities and we have to resort to inflationary advances from the Central Bank. The result is raising the deficit ceilings which endangers the drawing rights with the I.M.F.
12. The Representative of the I.M.F. declared that all advice of the Fund has been determinately implemented. The amount and timing of aid is of primary importance.

III. AID FROM THE WORLD BANK.

1. It is understood that the World Bank would not be in a position to give cash loans. The Indonesian Government would request aid from the World Bank in the form of program loans, which may include buyer's credits to be used to buy materials for rehabilitation.
2. A Residence Mission of the World Bank in Indonesia is considered necessary.

IV. PLANNING.

1. The Five Year Plan emphasizes programs, which may cut through the administrative boundaries of Departments. First priority is given to agriculture, including the rehabilitation of irrigation and flood control.
2. One major difficulty in planning is the large number of uncertainties due to the unstable situation at the present.

V. AGRICULTURE.

Agriculture's predominant role in Indonesian economy is evidenced by a number of factors: well over 70% of the country's 115 million people live from agriculture, 70% of foreign exchange earnings are derived from plantations, 50% of national product comes from agriculture.

Agricultural exports are declining from US \$547.00.000 in 1960 to US \$317.200.000 in 1967 because of declining yields, price drops in international market, and decrease of product quality.

Efforts to increase food production are absolutely necessary to relieve pressures on foreign exchange reserves for import of food stuffs. BIMAS program is aimed at intensification of rice production without expansion of acreage. Indonesia has 7.600.000 HA of cultivated land, 1.300.000 HA of which is technically well irrigated, 2.000.000 half technically irrigated, with the rest of 4.300.000 HA rain fed land.

Next year 200.000 HA with approximately 400.000 farmers will be included in the BIMAS program with a US \$ 40/HA incremental cost for a US \$ 80/HA incremental output.

In addition a contract has been signed with CIBA Ltd (Switzerland) for treatment of 300.000 HA in Java with aerial spraying of insecticides and application of fertilizers. With an estimated cost of US \$ 40/HA the CIBA program amounts to US \$ 12.000.000. The present program will cover the 1968/1969 wet season. Indonesia is still looking for sources of financing.

IRR 5 and IRR 8 seeds are being cultivated and plans are ready for utilization of these new varieties in the next wet season. For the success of this experiment irrigation and fertilizers are indispensable. Rehabilitation of irrigation system, neglected for many years, and import of fertilizers deserve serious concern.

To increase production of plantation (rubber, citronella oil, tea) fresh credits are needed for:

a. fertilizers (annually)	US\$	8.550.000
b. replanting and new planting	US\$	32.000.000
c. processing machineries	US\$	18.000.000
d. other equipment	US\$	2.000.000

Total	US\$	50.550.000
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For more detailed report on the possibilities of increase in rice production see informal report of LIPI - NAS Workshop on food.

VI. PUBLIC WORKS.

- The government has made plans for the rehabilitation of existing irrigated rice fields, highways and bridges, water supply and electric power supply. Some figures demonstrate the programming for the next 10 years (1968-1978).

	Present situation	Target 1973	Target 1978
a. Total Irrigated paddy fields	3.8 million Ha.	rehabilitation more than 50% plus new extensification.	rehabilitation of all existing irrigated rice fields plus new extensification.
b. Highway & bridges construction, state roads: 9115 km.	to be rehab.: (in 1968): 805 km.	to be rehab.: 9,115 km.	extension new roads: 8,605 km.
c. Fresh water supply	capacity: \pm 10,000 l/sec. average: 43 l/cap/day.	cap: 17,000 l/sec. average: 65 l/cap/day.	average: 86,4 l/cap/day.
d. Electric power	electric supply in 1967: 5,4 watt/capita	electric supply 9 watt/capita.	electric supply 13 watt/capita.

VII. TRANSPORT AND COMMUNICATION.

- The overall transport performance in ton/km of inter-regional traffic performance by each mode of transport is as follows (expressed in %):

sea transport	+ 59 %
road transport	+ 25.8 %
	+ 15 %
	+ 0.2 %

2. The main task in the field of transport and communication in the coming Five Year Development Plan 1969-1973 is therefore the rehabilitation of overaged and replacement of worn-out assets, which were subjected to great strains and neglect during the preceding decade.
3. In the field of railways the main emphasis is placed on rehabilitation of tracks and bridges, including signalling and tele-communications. On account of the heavy capital investment required, the need for track rehabilitation and renewal could probably not be fully met in the 1969-1973 plan period, but have to be extended to the second five year development plan. The total rehabilitation and development cost for the railways in the 1969-1973 plan is roughly \$35 million + Rp. 25 billion.
4. In the interest of improving air transport services as quickly as possible, several urgent projects will be developed and implemented in the Five Year Plan 1969-1973, namely:
 - rehabilitation and development of the major domestic airports; rehabilitation of communications system; further development of certain airports and terminal building.
5. For the development of postal and telecommunication services in some cities and areas, especially in trade and export centres, a total expenditure of US \$ 62,7 million and Rp. 20 billion is needed.
6. The development plan in the field of sea transportation includes programmes for the development of major and minor ports, expansion of shipping and rehabilitation of docking facilities.

VIII. INDUSTRY.

1. The existing domestic industries are still facing many obstacles. Industries generally run with 30% to 40% capacity except some plants favored by special credits and other facilities by the former government. The principal problems are:
 - a. Shortage of liquidity. Financial facilities from the Government are limited and the current high rate of interest put a heavy burden in loan capital.
 - b. Machineries and equipments are obsolete but shortage of foreign exchange constitutes a barrier to import of spare parts.
 - c. High cost of production due to high cost of power and transportation.
 - d. Inadequate managerial and technical know-how.

Under those circumstances domestic industries are unable to compete with imported commodities. Foreign aid is therefore badly needed to rehabilitate industries.
2. To overcome the existing problems of the industrial sector, the following policy has been adopted:

- a. Immediate steps are to be taken to rehabilitate and modernize existing industries in order to region their potential capacities in an efficient and optimal manner.
 - b. Delayed and suspended economic projects should be finished or full utilization of their units has to be made as far as this is technically and economically feasible.
 - c. New projects are to be erected in accordance with the national priority scale, and taking into consideration their economic and social aspects.
3. For the implementation of Indonesia industrial development, large amount of funds are definitely required. To this end, the Government of Indonesia is opening its door for foreign investment through the Foreign Investment Law. In this respect it is hoped that the World Bank and its subsidiaries will actively participate in providing and facilitating the supply of the funds for the following projects which have been given priorities by the Government for 1968:

a. Textile Industries.

- 2 spinning mills projects (Makasar, Padang) \$. 8.000.000.-
- Completion of and spare parts for existing mills \$. 1.250.000.-

b. Chemical Industries.

- Rehabilitation, modernization and expansion of existing industries and completion of suspended projects (appendix \$. 2.058.000.-
- PUSRI fertilizer plant, Palembang, South Sumatera, (expansion by 300% of present capacity) \$. 60.000.000.-
- GRESIK cement plant, East Java (one additional kiln of 125.000 tons annual capacity) \$. 5.000.000.-

c. International Finance Corporation Projects:

- Integrated Textile Mill \$. 10.000.000.-
- Cement Plant at Tjibinong, West Java \$. 20.000.000.-
- Fertilizer plant at Tjirebon, West Java \$. 60.000.000.-
- Automotive Industries \$. 15.000.000.-
- Aviation Industries \$. 3.200.000.-
- Survey & Research \$. 2.500.000.-
- \$.187.008.000.-

IX. MINING.

1. Only 5% of Indonesia is mapped geologically. We need technical assistance for a general geological survey.
2. In exploitation are: oil, gas, tin, nickel, bauxite, gold, silver, manganese, diamonds and coal.
3. Like in Europe coal consumption is declining. We have 3 coal mines employing 6.000 men.

4. There is a great demand for oil in the international market. Output in 1967 is 600.000 barrels per day. Planned production in 1970 is 1.2 million barrels per day.
5. Natural gas reserves in West Java and being surveyed by I.F.C. A request is submitted to the Asian Development Bank to finance an ammonium plant.

X. FOREIGN INVESTMENT.

1. Measures have been taken to attract foreign investment, such as:
 - a. the enactment of the Law on Foreign Investment in 1967;
 - b. the issuance of regulations on tax facilities, transfer of profits, depreciation allowances, and transferable costs;
 - c. the conclusion of investment guarantee agreements with the USA and Denmark, and the intention to conclude similar agreements with other countries;
 - d. Parliament has ratified participation of Indonesia in the Convention on the Settlement of Investment Disputes;
 - e. the return of foreign enterprises under control of the Government to their proper owners;
 - f. the formulation of policy directives by the Ministries concerned;
 - g. the preparation to establish industrial estates.
2. Promotional activities:
 - a. PIBA conference in Djakarta (June 1967) under sponsorship of the Stanford Research Institute;
 - b. Geneva Conference (November 1967) under sponsorship of Time, Inc.;
 - c. Roundtable conference in Djakarta under sponsorship of Business International (September 1968);
 - d. Establishment of Foreign Investment Services at Indonesian Embassies on Consulates in Geneva, Paris, The Hague, London, New York, Washington, D.C., San Francisco and Tokyo.
3. So far main interest from foreign investment is in the extractive industries: mining, forestry and fishing. These projects are located outside Java. Interest in manufacturing is increasing, mostly in consumption goods, location in Java. Most projects are either foreign exchange earning or foreign exchange saving. Transfer abroad of profits and other transferable items are expected not to be a balance of payments problem.
4. An improvement in the conditions of our infrastructure will make Indonesia more competitive than our neighbouring countries.
5. Provisions are under way to make tax system less complicated and more attractive to foreign investors.

XI. INDONESIAN DEVELOPMENT BANK.

1. Out of the Rp. 32 billion allocated for development purposes in the 1968 Budget, Rp. 7 billion is earmarked for the rehabilitation, expansion and finishing of state-owned industrial projects. This amount will be granted as a non-interest bearing loan to the Indonesian Development Bank and has to be used as a revolving fund.
2. Deposits from private sources and loans from the Central Bank are used for the financing of private industrial projects.
3. In order to raise more funds for the private sector the Indonesian Development Bank is looking for foreign sources. It is hoped that the World Bank and the I.F.C. will renew their statutes which would make it possible to grant loans to Government-owned banks, such as the Indonesian Development Bank.

I.B.R.D. PRESIDENT McNAMARA'S
PRINCIPAL CONCLUSIONS ON INDONESIAN ECONOMIC PROBLEMS
AS PREPARED BY THE INDONESIANS

DECLASSIFIED

APR 01 2013

WBG ARCHIVES

CURRENT PRIMARY PROBLEMS

1. To maintain stability of rice price. This requires additional P.L. 480 aid from the U.S.A. Indonesia can definitely absorb large amounts of wheat flour. In this respect Mr. McNamara thinks he can exercise effective persuasion upon US Government.
2. Import of fertilizers and food stuff before start of next wet season.
3. Scarcity of loan capital all over the world, particularly soft loans (average interest rate is now 7% per year).
4. Servicing of foreign debt is too severe. Consequently Indonesia cannot afford hard loans, unless rescheduling arrangements are made better bearable.

EVALUATION OF ECONOMIC PROGRAM.

Said Mr. McNamara: "No other country I have ever visited, particularly in Southeast Asia, has a sounder approach to its economic problems, backed by so many resources, as Indonesia. And in no other country are the top men responsible for the nations economy so well qualified as in Indonesia."

Identification of short term needs is right. Inducement of private foreign investment and domestic saving is sound.

WHAT I.B.R.D. CAN DO FOR INDONESIA.

1. Rehabilitation of unfinished projects, particularly irrigation, has first priority in Mr. McNamara's mind. He is confident that he can obtain approval of the Board of Directors of the Bank for some US. \$. 4,000,000 to finance the design of irrigation rehabilitation in Indonesia. Later this month the Bank can send its lawyers to Indonesia to draft an agreement with the government of Indonesia. After that technicians will follow for technical aid.
2. For the next five years Indonesia needs to develop its industries and infrastructure. The Bank can help with technical aid to lay the foundations for that development.
3. A couple of million dollars can be expected from the Bank to design the expansion of Indonesia's fertilizer plant. The expansion itself has to be financed from other sources.
4. To obtain financing from other sources for Indonesia's development needs the Bank could organize a joint financing which essentially means the use of tied aid without any purchasing penalties. The Bank's soft loans can of course be made available.

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OTHER CONCLUSIONS.

1. Recently there has developed in the USA a psychological barrier against foreign aid because of misuse of aid funds by some receiving countries. This limits US contribution to the Bank and consequently restricts the Bank's potentialities for loans. But for Indonesia the requirements to receive a loan are convincing and the chances are great that a loan can be pushed through.
2. IDA is at the moment literally at its financial bottom because the 17 countries from where contributions should come have so far failed to fully live up to expectations. There is some hope that within the cousing(?) 90 days US legislation will pass a bill to replenish IDA. If that happens IDA can give substantial loans to Indonesia. If not the Bank still can be of considerable help to Indonesia.
3. There is nothing entirely satisfactory in getting loans, but it is always better to get something than nothing at all. A "piggy back operation" may be organized: a relatively small loan can be received for the design of a project, which then can be followed by other loans (perhaps from other sources) for further development.
4. For the design of projects and feasibility studies there is a possibility that US - AID agrees on the financing with funds to be administered by the Bank.
5. Mr. McNamara will discuss with Mr. Bell the problem of Indonesia's program of debt rescheduling which is considered a heavy burden to the country's economy.
6. At the press conference on Saturday, June 15, Mr. McNamara and the Sultan will announce Indonesia's request for a resident mission and the Bank's positive reply on it.

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GUEST LIST
COCKTAIL-BUFFET IN HONOR OF THE
PRESIDENT OF THE IBRD AND MRS. McJAMARA
AMBASSADOR'S RESIDENCE, FRIDAY, JUNE 14, 1968
6:30 - 8:00

DIPLOMATIC REPRESENTATIVES OF IBRD COUNTRIES

- R (1) H.E. The Ambassador of Afghanistan Mr. Safi
(2) Charge d'Affaires of Argentine Mr. Jose Manuel Sierra
R (4) H.E. The Ambassador of Australia & Mrs. Lowday
(6) H.E. The Ambassador of Austria & Mrs. Hohenbuehel
(8) Charge d'Affaires of Belgium & Mrs. M. Adam
(9) Charge d'Affaires of Brazil Mr. Raul de Sa Barbosa
(11) H.E. The Ambassador of Burma & Mrs. Maung Maung
(13) H.E. The Ambassador of Canada & Mrs. Olivier
(15) H.E. The Ambassador of Ceylon & Mrs. de Zoysa
R (17) Charge d'Affaires of Denmark & Mrs. Kaeris
(19) Honorary Consul of Finland & Mrs. Kuokkanen
(20) H.E. The Ambassador of France Mr. Claude Cheysson
(21) H.E. The Ambassador of Germany Mr. H. Bassler
(23) Charge d'Affaires of Great Britain & Mrs. Sutherland
(25) H.E. The Ambassador of India & Mrs. Kannampilly
(27) H.E. The Ambassador of Iran & Mrs. Dowlatslahi
(29) H.E. The Ambassador of Italy & Mrs. Alvera
(30) Charge d'Affaires of Japan & Mrs. Mikanagi
(32) H.E. The Ambassador of Malaysia and Tuan Sri Rahmah Ya'acob
(33) H.E. The Ambassador of Mexico General Escobedo
(35) Counselor of Embassy of the Netherlands & Mrs. Ritter
(36) H.E. The Ambassador of New Zealand Mr. R.L.G. Chaffic
(38) H.E. The Ambassador of Pakistan & Mrs. Sher Ali Khan
A (40) H.E. The Ambassador of the Philippines & Mrs. Modesto Farolan
(42) Charge d'Affaires of Saudi Arabia & Mrs. El Nasser
(44) Charge d'Affaires of Singapore & Mrs. Ridzwan Dzafir
(46) Charge d'Affaires of Sweden & Mrs. Hammarstrom
(48) Charge d'Affaires of Thailand & Mrs. Prasasvinitchal
(50) Charge d'Affaires of Turkey & Mrs. Sengenc
(52) ~~Charge d'Affaires of Yugoslavia & Mrs. Bulajic~~ (*Amb. has returned & has been invited*)

UNITED NATIONS ORGANIZATIONS

- (54) Mr. & Mrs. Gritly, UNDP
R (55) Mr. McDivitt, UNESCO
(57) Mr. & Mrs. Morad, FAO
R (59) Mr. & Mrs. Sandberg, UNICEF
(60) Dr. Mahendra Prasad, WHO

INDONESIAN GOVERNMENT

- R (61) H.E. The Minister of State for Economic, Financial, and Industry Affairs Sri Sultan Hamengku Buwono IX
R (63) H.E. Prof. Dr. and Mrs. Ali Wardhana, Minister of Finance
(65) H.E. Prof. Dr. & Mrs. Sumitro Djojohadikusumo, Minister of Trade
(67) H.E. Prof. Dr. and Mrs. Tojib Hadiwidjaja, Minister of Agriculture
(69) H.E. Maj. Gen. and Mrs. Jusuf, Minister of Industry
R (71) H.E. Prof. Dr. & Mrs. Sumantri Brodjonegoro, Minister of Mining

- (73) H.E. Ir. and Mrs. Sutami, Minister for Public Works & Electric Power
- (75) H.E. Drs. and Mrs. Frans Seda, Minister of Communications
- (77) H.E. Rear Admiral and Mrs. Mursalin Daeng Mamangung, Minister of Manpower
- (79) Prof. & Mrs. Widjojo Nitisastro, Chairman of the National Planning Board, BAPPENAS
- (81) Prof. and Mrs. Emil Salim, Deputy Chairman, BAPPENAS
- (83) Dr. and Mrs. Mohamad Sadli, Chairman, Technical Team for Foreign Capital Investment
- (85) Dr. & Mrs. Dradjat D. Prawiranegara, Director of the Nutrition Institute, Ministry of Health
- (87) Lt. Col. & Mrs. Arifin, BUL
- (89) Prof. & Mrs. Sarwono Prawirohardjo, President, Indonesian Institute of Sciences
- (91) Maj. Gen. and Mrs. Suprajogi, Chairman of the Financial Auditing Board

INDONESIAN PRIVATE BANKERS

- (93) Mr. & Mrs. Kusmuljono, Managing Director, Bank Perniagaan Indonesia
- (95) Mr. & Mrs. Bachnum, Director, Bank Amerta
- (97) Mr. & Mrs. Tachjar, Chairman, Perbanas

INDONESIAN STATE BANKS

- R(99) Governor & Mrs. Raduis Prawiro, SE, Bank Negara Indonesia Unit I
- (101) Mr. & Mrs. M. Djoeana Koesoema Hardja, SH, Bank Negara Indonesia Unit I
- (103) Mr. & Mrs. R. Hertatijanto, SH, Bank Negara Indonesia Unit I
- (105) Dr. & Mrs. Rachmat Saleh, SE, Bank Negara Indonesia Unit I
- (107) Mr. & Mrs. Oey Beng To, SE, Bank Negara Indonesia Unit I
- (109) Mr. & Mrs. R.A. Kartadjoemena, SH, Bank Negara Indonesia Unit I
- (111) Mr. & Mrs. Marathon Wiridja Mihardja, MA, Bank Negara Indonesia Unit I
- (113) Mr. & Mrs. Soeksmono B. Martokoesoemo, SE, Bank Negara Indonesia Unit I
- (115) Mr. & Mrs. E. Soekasah Somawidjaja, Bank Negara Indonesia Unit II
- (117) Mr. & Mrs. Permadi, SE, Bank Negara Indonesia Unit II
- (119) Lt. Col. & Mrs. Soedjiwo, Bc. Hk, Bank Negara Indonesia Unit III
- (121) Col. & Mrs. Soegijono, Bank Negara Indonesia Unit IV
- (123) Mr. & Mrs. R.A.B. Massie, SH, Bank Negara Indonesia Unit IV
- (125) Mr. & Mrs. Kiram Dibjosiswanto, SH, Bank Negara Indonesia Unit V
- (127) Mr. & Mrs. R. Rachmat, Bank Negara Indonesia Unit V
- (129) Mr. & Mrs. Omar Abdalla, Bank Dagang Negara
- (131) Mr. & Mrs. Moeljoto Djojomartono, SE, Bank Dagang Negara
- (133) Drs. & Mrs. S. Pamungkas, Bank Pembangunan Indonesia

AMERICAN BANKERS

- (135) Mr. & Mrs. Thomas Parnell, Manager, American Express
- (137) Mr. & Mrs. C.J. Groen, Manager, Bank of America
- (139) Mr. & Mrs. Charles M. Stockholm, First National City Bank

IBRD AND IMF

- (141) Mr. & Mrs. Mohamed Shosib, Vice President, IBRD
- (142) Mr. Bernard Bell, IBRD Staff
- (144) Mr. & Mrs. Alfred Matter, IBRD Representative, BAPPENAS
- (146) Mr. & Mrs. Martin Sanders, BAPPENAS
- (148) Dr. & Mrs. Boucherie, IBRD Staff, BAPPENAS
- (150) Mr. & Mrs. Kemal Siber, IMF Representative, Bank of Indonesia
Unit I *JAKARTA, INDONESIA*
- (152) Mr. & Mrs. Thomassen, IMF Deputy Representative, Bank of
Indonesia, Unit I
- (154) Mr. & Mrs. Sybren Clossen, IMF Staff, Bank of Indonesia Unit I

OTHER AMERICANS

- (155) Mr. Gordon Messegue, Stanford Research Institute
- (156) Dr. Stanley Wenberg, V.P. University of Minnesota

2:50 →

OFFICIAL AMERICANS

- (157) Mr. Jack W. Lydman, Minister Counselor
 (159) Mr. & Mrs. Edward E. Masters
 (161) Mr. & Mrs. Clarence E. Barbier
 (163) Mr. & Mrs. Stokes M. Tolbert
 (165) Mr. & Mrs. Robert L. Walkinshaw
 (167) Mr. & Mrs. John S. Gatchell
 (169) Mr. & Mrs. McCusker
 (171) Mr. & Mrs. Segall
 (172) Mr. & Mrs. Daniel P. Sullivan
 (173) Mr. Joseph A. Harary
 (175) Mr. & Mrs. Paul M. Cleveland
 (177) Mr. & Mrs. Malcolm H. Churchill
 (179) Mr. & Mrs. Victor Morgan
 (181) Mr. & Mrs. Glenn A. Lehmann
 (193) Mr. & Mrs. John W. McCarthy
 (195) Mr. & Mrs. Edward H. Stroh
 R (197) Mr. & Mrs. Halsey L. Beemer (*in Singapore*)
 (198) Mr. Harrison Parker
 (199) Miss Leslie Sparks
 (200) Miss Helen Smith
 (201) Miss Dolores Boyer
 (202) Miss Juanita Hazard

(204) Mr. & Mrs. Robert McNamara, Guests of Honor

(205) HOST & HOSTESS: Ambassador & Mrs. Marshall Green

Amb

ADDENDUM TO COCKTAIL-BUFFET GUEST LIST

- (208) H.E. The Ambassador of Yugoslavia & Mrs. Loncar
- R (210) H.E. Air Vice Marshal & Mrs. Budiardjo, Minister of Information
- (212) General & Mrs. Achmad Tirtosudiro, Government Food Administration
- (214) Mr. & Mrs. Pala, UNESCO
- (215) Mr. Adrian Noë, Chase Manhattan Bank
- (217) Mr. & Mrs. Alexander Bosenovich, Bank of America
- (218) Mr. Ken Bodine
- (220) Mr. & Mrs. Wiley Reynolds
- (222) Mr. & Mrs. Beck, AID
- (224) Mr. & Mrs. Anderson, AID
- (226) Mr. & Mrs. Chetwynd, AID
- (228) Mr. & Mrs. Arnold, AID
- (229) Miss Doyle, AID

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*Mr. McNamara - to see please,
RBS 12/3*

OFFICE MEMORANDUM

TO: Records

FROM: Raymond J. Goodman *RJG*

SUBJECT: Visit of General Sutowo

DATE: December 2, 1968

General Ibnu Sutowo, President/Director of PERTAMINA (National Oil and Gas Company), Indonesia, called on Mr. McNamara at 5:00 p.m. on Friday, November 29th, accompanied by ex-Governor Brown of California, Mr. Hasmore, PERTAMINA's representative in New York, and General Suhardiman, Indonesian Consul-General in New York. I was also present.

Governor Brown explained that in visiting Mr. McNamara they had no specific matters to raise with him. General Sutowo had missed meeting Mr. McNamara during the latter's visit to Indonesia this Summer, and wanted to use the occasion of a trip to the United States to call upon him.

The conversation was on a general plane and concerned principally the importance to Indonesia of oil exploration and oil exports, and the need to rehabilitate Indonesia's agriculture. Governor Brown did most of the talking. General Sutowo mentioned PERTAMINA's interest in fertilizer production, but if he had any specific proposition in mind he did not refer to it.

cc: Mr. Shoaib
Mr. Bell
Mr. Brakel

President has seen

9

May 7, 1969

MEMORANDUM OF CONVERSATION WITH AMBASSADOR SODJATMOKO OF INDONESIA,
MAY 7, 1969

The Ambassador, during a brief visit, stated:

1. He hoped we could avoid future controversy of Bank mission reports by better coordination between the Government, the Resident Mission, and our home office.

2. The Government would like the Bank to organize a consortium to finance the expansion of the Pusri fertilizer plant. Such a consortium should include the Asian Development Bank.

3. The Government needs advice and assistance in the review of construction and proposals from private industry for investment in Indonesia. They would like the Bank to assign a man for this purpose to the Resident Mission. They have made a similar request to the Harvard Development Service.

4. The Development Bank in Indonesia is "in bad shape" and they would like our assistance in reorganizing it.

I told the Ambassador we would be happy to try to meet the requests outlined in 2, 3 and 4 above, but I believed the Government should initiate its requests through the Resident Mission in Indonesia. He promised to so advise his Government.

I later reviewed each of these four points with Doug Fontein.

Robert S. McNamara

10

OFFICE MEMORANDUM

Ind-gen recp
cc Ind - Pusri
cc Ind - Dev Bank
Bopundo

TO: Files

DATE: October 8, 1969

FROM: Stokes M. Tolbert *SMT*

cc Ind - West Irian

SUBJECT: INDONESIA: Meeting of Delegation with Mr. McNamara

Mr. McNamara

to see

Mr. McNamara met the Indonesian Delegation at 5:00 p.m., Monday, September 29, 1969. Those present were:

IndonesiaBank

Mr. Ali Wardhana, Minister of Finance

Mr. McNamara

Mr. Radius Prawiro, Governor,
Bank Indonesia

Mr. Knapp

Mr. Djoeana Koesoemahardja, Deputy
Governor, Bank Indonesia

Mr. Shoaib

Mr. Goodman

Mr. Bell

Mr. Tolbert

lec 10/23

1. PUSRI Fertilizer Expansion Project

After congratulating the delegation on Indonesia's continued sound economic performance over the past year, Mr. McNamara noted that he had talked earlier that day with Mr. Watanabe of the Asian Development Bank and with the Japanese Minister of Finance regarding the PUSRI project. There appeared to be no problem regarding a contribution by ADB to the project, but the Japanese had some difficulties. These related not only to the availability of funds - a matter which they hoped would be resolved before January 1970, but could conceivably take until April - but also to the soundness of the project itself, especially as regards transport facilities for the fertilizer production and the marketing and demand aspects. We will have to work very closely with the Japanese. Mr. Aldewereld would be speaking further with the Japanese during the week and Mr. Goodman was meeting with the members of the Japanese Delegation on Wednesday. We would make certain that the Appraisal Report covered satisfactorily the questions that the Japanese had on the project. We would want to satisfy ourselves on these points also; we would not be willing to finance an unsound project. It was our hope that even if Japan could not make a formal commitment before April they could at least give us a firm enough assurance to enable us to proceed with the project.

2. Technical Assistance in Project Control

Mr. Wardhana stated that his Government wished to obtain technical assistance for instituting a system to keep track of projects under the development program. A planning and control system was needed which would produce timely information on both physical and financial progress of projects, and enable the Government to identify the bottlenecks. Mr. Bell

President has seen

noted that there was definitely a need for such a system, and it probably required not more than three or four experts to assist the Indonesian officials in the National Planning Agency (BAPPENAS) and in the ministries concerned with development projects. We did not have the required people available in the Resident Staff in Djakarta to do the job, but it should be easy for the Government to obtain such people from a number of sources. Mr. McNamara asked Mr. Bell to follow up with the Finance Minister and work out a proposal to meet the need, utilizing, if necessary, funds from the \$2 million technical assistance credit.

3. Development Finance Company

Mr. Goodman noted that Mr. Diamond, in a meeting with the Indonesian delegation on September 27, had explained that it would not be possible to accelerate the Appraisal Mission as the Indonesians wished. The mission is now scheduled to arrive in December, and this cannot be advanced because of other staff commitments. However, it was hoped that Mr. Uquaili, former head of PICIC and former Finance Minister of Pakistan, would be available for an assignment in Indonesia starting before the end of October, to study private sector operations and financing requirements prior to the arrival of the Appraisal Mission. In the meantime, we would be discussing with BAPINDO arrangements for an independent audit of their operations. Mr. McNamara raised the question as to whether the audit was required before the arrival of the Appraisal Mission; Mr. Goodman said he understood that some audit work, but not a completed audit, was a prerequisite for the appraisal. Mr. McNamara stated that he would meet with Mr. Diamond and Mr. Goodman shortly to see what could be done to accelerate the preparation of this very important project.

4. Credit Insurance Scheme

Governor Prawiro stated that the Government wished to institute a scheme for insuring credits to small businesses in order to encourage the extension of such credits by state banks. At present, BAPINDO and other state banks extended investment credits to small businesses only against collateral, and the Government was seeking assistance in devising a scheme to ease such restrictions. Mr. McNamara asked Mr. Bell to look into the problem. Mr. Bell pointed out that the Government could either set up a specialized agency for lending to small business, or it could establish an insurance scheme to encourage such lending by the banks. Each approach had its merits. He would discuss the matter further with Governor Prawiro in Djakarta.

5. West Irian Development Fund

Mr. Wardhana noted that the Foreign Ministers of Indonesia and the Netherlands, meeting in Rome recently, had issued a statement announcing their intention to seek the formation of a new fund for economic development of West Irian, possibly to be administered by the ADB. It was hoped that the Netherlands, the United States and Australia might contribute. An existing \$30 million fund, contributed by the

Netherlands, was presently administered by the U.N. (under an organization called FUNDWI, or Fund for West Irian). As a result, however, of widespread resentment in the Netherlands over the Indonesian administration of the "Act of Free Choice" in West Irian, and opposition to the continuation of the U.N. arrangements arising out of the 1962 settlement, the Dutch and the Indonesians both desired to establish a new fund.

An organizational home was needed for the fund. The ADB was new and, in the Indonesian view, slow-moving. Mr. Wardhana consequently wished to know whether the IBRD would agree in principle to consider administering such a fund, provided, of course, that the Dutch agreed also.

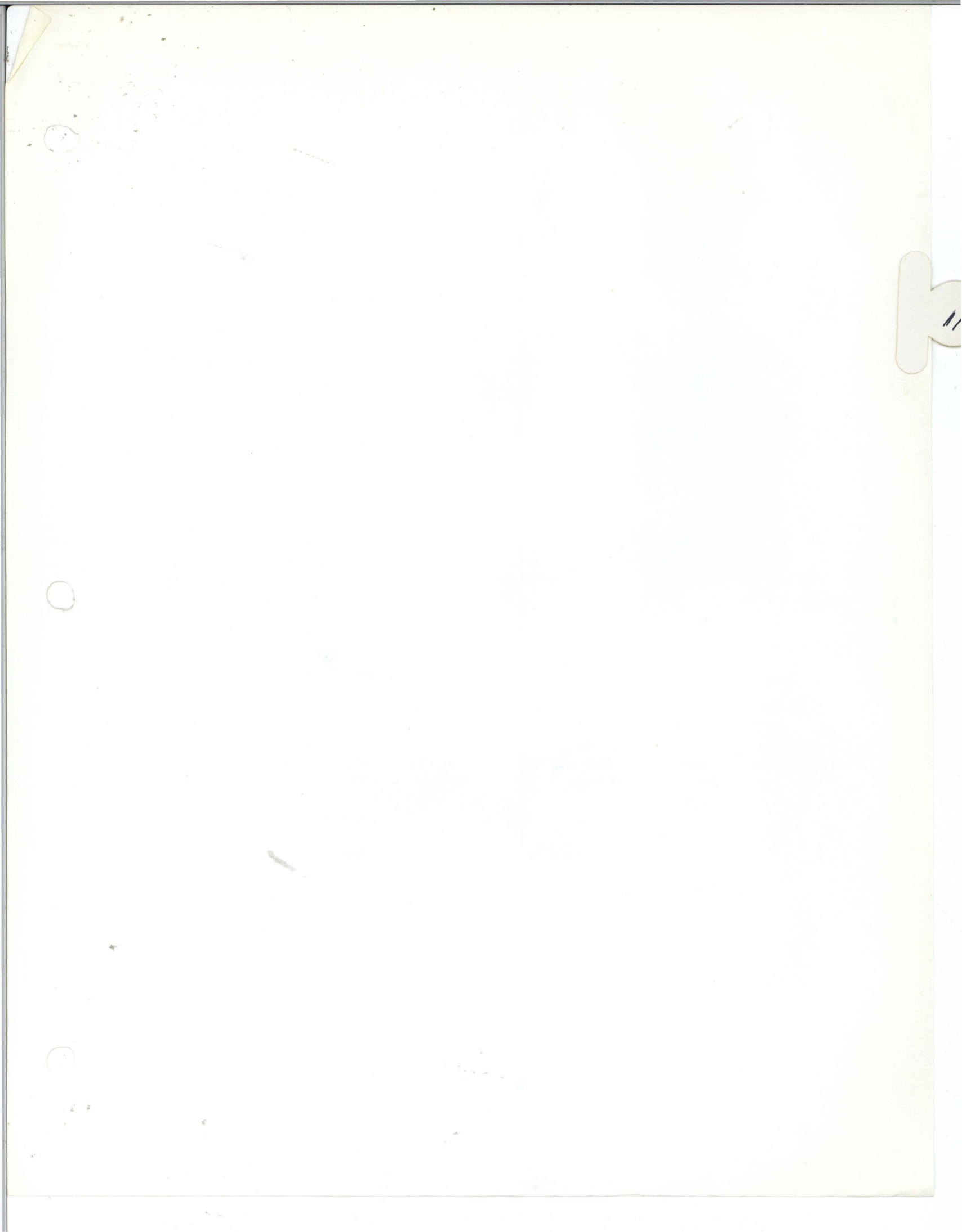
Ambassador Sudjatmoko added that President Suharto had asked President Nixon to consider a possible U.S. contribution to such a fund; the Dutch were considering the provision of \$5-10 million; and the Australians were understood to be willing to consider a contribution. If the Bank were not opposed in principle to administering the fund, the Government of Indonesia would know that it could then pursue the question further as events developed.

Mr. McNamara said the Bank always wished to be of help to its member countries and, assuming there were no restrictions as to maturity or purposes which might result in an uneconomic use of the funds or of our time, he would be willing in principle to consider a proposal for administration of a fund for a specific area. However, we would not wish to appear to be elbowing the ADB aside. Mr. Knapp suggested that the Indonesians determine first the attitude of ADB in this regard since this proposal had been made to ADB in the first instance. The Indonesians agreed to do so. (It was learned later during the week that Mr. Watanabe had in fact informed the Indonesians that ADB would be willing to administer such a fund if established).

6. Invitation to Visit Indonesia

The Finance Minister then stated that he wished, on behalf of his Government, to invite Mr. McNamara to visit Indonesia. Mr. McNamara expressed appreciation and said he hoped to be able to accept at some time in the future, but saw no early opportunity to do so; he hoped, however, that Mr. Knapp would soon be able to find the opportunity to visit Indonesia, perhaps early next year.

cc: Messrs. Knapp
Shoaib
Tazi
Bell
Diamond



OFFICE MEMORANDUM

TO: Files

DATE: June 8, 1970

FROM: Raymond J. Goodman *RJG*SUBJECT: INDONESIA: Discussion with President Suharto.

Mr. McNamara, accompanied by Messrs Knapp, Shoaib and Goodman, called on President Suharto at Blair House on May 27. Also present were the Minister of Foreign Affairs, H.E. Adam Malik, Professor Wijoyo, head of Bappenas, and the Ambassador, H.E. Soedjatmoko.

President Suharto said how grateful Indonesia was for the technical and financial help of the Bank Group, and in particular for the assistance of the Bank Resident Mission. He regarded the Bank and the IMF as having a most important role in the economic life of his country and in its relations with donor countries through the IGGI. He mentioned the readiness of his Government to adopt new policies on the advice of its friends, and referred in particular to the April decisions on the exchange rate. The objective was to ensure that the Indonesian people should feel that life was becoming better. Mr. McNamara, after thanking the President for his remarks, congratulated him on his political courage in taking these decisions and said that Indonesia had great opportunities before it but that it also confronted a number of serious problems*:-

1. Administration. There were too many civil servants, not all of them competent, and none of them adequately paid. This led to inefficiency and corruption, problems which would become more of a burden as the development tasks became more difficult. He offered to put on paper some suggestions as to how the administrative problems might be tackled. President Suharto accepted this offer and then talked at some length about corruption, a phenomenon he attributed mainly to the bad economic situation in the country.

2. Rice Production. Mr. McNamara noted that the aim was to achieve self-sufficiency in rice by 1974 and said that on this subject also the Bank would be glad to put its suggestions on paper. President Suharto again accepted.

* For a fuller statement see background paper attached to my Memorandum to Mr. McNamara of May 25.

President has seen

June 8, 1970

3. Population Planning. Mr. McNamara said how important it was to reduce the growth of population but acknowledged that this was a very complicated problem which so far only Korea and Taiwan had tackled with any practical results. The Bank had limited experience in this field, but would be glad to give such assistance to the Government as it could through the Resident Mission and drawing on the experience of other agencies. President Suharto thanked Mr. McNamara for this offer. He said that the Family Planning Program was already accepted by the Government but that the real difficulties were to get it accepted by the public, especially the religious leaders, and to ensure that the program was implemented. He had just appointed a well-qualified official to be responsible for family planning and would welcome any suggestions from the World Bank.

4. Long-term Planning. Mr. McNamara said that economic management had been good so far but that there was now a need to look further ahead, say over the next 10 years. The World Bank would be sending an economic mission to look into this later in the year, and we would of course make its comments and suggestions available to the Government. President Suharto agreed that a longer perspective was necessary but noted that any long-term plan, since it would go beyond the mandate of the present Government, would have to be submitted to the people for their approval.

cc: Mr. McNamara
Mr. Knapp
Mr. Shoaib
Mr. Tolbert
Mr. Bell

August 14, 1970

*By file in
"minutes"
conversation
back book*

General Soeharto
President of the Republic
of Indonesia
Sekrepariap Negara
Djakarta
Indonesia

Dear Mr. President:

You will recall that in the course of our meeting in Washington on May 27 we touched on some of the steps which your Government had taken and was taking to put Indonesia firmly on the path of economic progress. We also talked of a few of the serious obstacles which you immediately confront, and of the efforts you were making to deal with them. We referred, among other matters, to the need to achieve a substantial increase in rice production, the need to reduce the rate of population growth and the need for substantial improvement in Government administration and in the management of State-operated enterprises and services. You indicated that you would welcome any suggestions I might be able to make on these problems.

I realize that in these, as in most matters, what you need are not so much ideas about what to do as concrete suggestions on how to do it and, even more, assistance in doing it. I am aware also that you had, prior to the time of our discussion, taken a number of steps to deal with the problems we discussed and have, since that time, taken further action. I realize moreover that you, your Ministers and their staffs, with assistance and advice from our Resident Staff and others, have been actively engaged in formulating further policies and operating programs and in actually executing these programs in each of the areas we discussed. Consequently, at least some of the suggestions I make at this time will not be new to you but they may nevertheless be of interest.

Reduction of Population Growth:

I mention this problem first because of its over-riding importance. You have recently received the report and recommendations of the Family Planning Mission sponsored by the Bank jointly with the United Nations and the World Health Organization. I was happy to learn that even prior to the receipt of the final report of this Mission you had created a new organization for the conduct of your Family Planning Program, had it made a Government program for which you took personal responsibility, had appointed a Ministerial Council to give the program general guidance and an Executive Officer and staff to direct and coordinate the operations of the several Departments involved. I understand

also that you directed the Executive Staff and others concerned to review our Mission report immediately and to formulate and quickly adopt an operational program. I am informed that your newly appointed Executive and personnel of the several agencies involved have been working long and hard hours on this, in compliance with your directions, and I am happy that we have been able to provide them with some assistance. We stand ready, as we have indicated, to provide resident personnel with experience in the conduct of such a program to assist in the actual execution of your program, and we are prepared to provide material assistance as well. Our staff is now consulting with yours in attempting to identify precisely what shape this can best take, and we propose to send to Indonesia in late October a team to prepare and agree finally with you on a specific project of assistance which we would finance with an IDA Credit.

I have few further suggestions to make at this stage. I hope that you appreciate, however, that if the program is to be effectively conducted and on a scale likely to have real impact on the rate of population growth it will be necessary to depart from existing regulations and practices in several respects. In this regard I suggest:

- (1) That the allocation of budget funds, as well as of external aid to the several agencies involved in the execution of the program, should be to or under the control of the coordinating body. Experience indicates that effective control and direction of the program will be possible only if this body and its executive has command of the resources available for the purpose.
- (2) That it will probably be necessary to permit an exception in the case of this program to your general rule that no additional Government personnel may be employed. This program will require large numbers of workers at the clinics which are to provide information and services throughout rural as well as urban areas, and additional numbers to visit villages throughout the country to disseminate both information and services. It has been suggested that as many as 15,000 people will be required, most of them women. It would be desirable that so far as possible the personnel requirements be met by transferring suitable personnel from other programs and agencies, but to the extent that this is not possible, new hiring will be essential.
- (3) That it will be necessary to provide adequate levels of compensation for the personnel employed on the program, and especially for the medical and paramedical personnel. Preferably this should be done as part of a program to provide more adequate compensation for all Government employees whose services are in fact required, but if it cannot be done in that context it should be done in selected very high priority programs such as the Family Planning Program.

Government Administration and Management of State Enterprises:

It appears to be accepted both by your Government and by foreign observers that with few exceptions Indonesian Government agencies and state enterprises are very considerably over-staffed and ineffectively organized, that procedures are inefficient and that personnel, especially medium and high level personnel, are inadequately compensated. These are not problems which are unique to the Government of Indonesia, and almost every government in the world is engaged in the continuous effort to deal with them. They do appear, however, to be especially pronounced in the case of Indonesia. On the basis of our own experience and observations of the experience of others, I have a number of suggestions which I put forward without elaboration:

- (1) I suggest that a determined effort be made to reduce the numbers of both civil and military personnel. I realize that this is difficult to do on any scale so long as alternative opportunities for employment are not growing rapidly. Nevertheless, some growth in employment opportunities in Indonesia is occurring and should accelerate. I understand that you have recently required that all personnel aged 56 or over be retired not later than March 31, 1971, and suggest that further steps be taken.
- (2) It should be possible to inventory existing skills, aptitudes and desires among Government personnel for productive employment outside the Government and then to attempt to match these with new opportunities for productive employment in the private sector. I understand that a start has been made in this direction in the case of military personnel, and I would suggest that it be done in the case of civilian personnel as well.
- (3) I would suggest that where employment opportunities cannot be found by the Government itself for personnel to be dismissed or retired, it would be desirable to provide severance pay for individuals so dismissed or retired for a period during which they themselves could seek alternative employment.
- (4) I suggest also the reform of the higher salary structure and levels which would, among other things, generally increase salaries for personnel in more responsible positions and with technical training. A new higher level of compensation could be offered to those employees who are prepared to give up second and third jobs and to devote their full time and efforts to their jobs in the Government. This has been done successfully in a number of places, including Brazil where the term "Exclusive Dedication" is used.
- (5) Reduction or elimination of redundant personnel and more adequate levels of compensation are necessary but not sufficient conditions for increased efficiency and the elimination of corruption in Government administration. I

suggest therefore that in addition it will be necessary to evaluate performance by Government personnel and to demand efficient and honest performance. I understand that you have recently called for the establishment of a system of personnel evaluation in all agencies of the Government. This is clearly a step in the right direction. It will need to be accompanied by rewards and penalties if it is to have the desired effect. I understand also that you have recently required the declaration and registration of assets by employees of all Government agencies and enterprises. This too will need to be accompanied by rewards and penalties if it is to have the full desired effect.

- (6) On another aspect of the problem, a series of organizational and procedural steps could be taken which from experience elsewhere would, I believe, contribute significantly toward greater efficiency and the elimination of damaging corruption. These include:
- (a) Establishment of the rule that all Government and state enterprise purchases of goods and services from suppliers and contractors are to be on the basis of competitive bidding, in response to tender documents which clearly and fairly set specifications, with evaluation of bids on an objective basis by teams of responsible officials, and with their recommendations in respect to contract awards subject to review and certification or endorsement by the most senior officials of the agencies or enterprises concerned. Such procedures, I understand, are now being followed to an increasing extent. I believe a useful pattern has been set in connection with procurement of goods and services for projects financed by our Credits, and that what is required now is extension of this system to all procurement.
 - (b) I suggest the establishment of systematic procedures for the handling of inventories of materials and equipment held by Government agencies and enterprises. I assume that a workable inventory system and procedure already exists in your military services. I understand it is now being established in your Highway Directorate in the Ministry of Public Works, and extension and adaptation to other Government agencies and enterprises would be highly desirable.
 - (c) I suggest a systematic review of the procedures whereby Government agencies control, regulate, approve and licence a great variety of production and trade activities. I understand that such a systematic review was made of procedures related to import and export trade in connection with the April 17 measures, and that it was found at the time that many of the existing procedures were relics of a no longer existing or necessary effort at control, that they imposed excessive and unnecessary costs on those engaged in trade activities, and were serious obstacles to development. It is extremely likely that exactly the same situation

prevails in many other sectors of economic activity. I need hardly say that experience everywhere in the world has demonstrated that the necessity for official approvals of a variety of private actions is a major source of inefficiency and corruption, both minor and major. Elimination of unnecessary procedures and requirements can make a significant contribution to economic development.

- (d) In this same connection, I suggest a major simplification and restructuring of your import tariff system. I understand that the system is at present so complex and the duties on most commodities so high that physical smuggling and other types of evasion are wide spread and defeat both the revenue and the protection purposes which the import duties are designed to serve. I am pleased to know that the work of developing a comprehensive restructuring and simplification of the import tariff system is under way, and I hope that you will be able to push it to an early conclusion and action.
 - (e) I suggest continuation of the efforts made in the past year to improve budget preparation and budgetary disbursement procedures. I understand that further work has been done on this matter recently, particularly in connection with procedures for the year-round preparation and evaluation of projects from which the annual development budget can be formulated. I urge that appropriate action be implemented and that the suggestions made be taken.
- (7) With respect to state enterprises, I understand that the process of transforming these into more autonomous and financially viable enterprises is underway. I make several suggestions:
- (a) That each enterprise be placed under the direction of a board which has both responsibility and authority and to which management of the enterprise is responsible. I suggest that the relationship of management to the board in each case be clearly established in such a manner that the board determines general policy, approves reasonably detailed annual budgets and specifically approves major expenditures and incurrences of the assets of the enterprises but at the same time does not interfere with the day to day execution of policies and programs by the management of the enterprise. Management should be responsible for recommending policies and programs to the board and within the limitations of policies and programs established by the board should be fully responsible and have full authority for operations.

- (b) That there be an adequate flow of information in the form of monthly or at least quarterly reports on physical and financial operations from management to the board in the case of each enterprise. I suggest moreover that the boards commission each year audits of the accounts of each enterprise by qualified auditors outside and independent of the enterprise. I suggest further that annual financial statements and the audit reports be published in the case of every state enterprise.

I am aware that in the case of a number of state enterprises, including those conducting programs and projects which we are helping to finance, these steps I am suggesting have been or are being taken. I believe that similar steps should be taken in connection with other state enterprises, and particularly the large and important ones such as Pelni, Pertani, Bulog, Pertamina and others.

The Rice Production Program:

I am aware that through the Bimas programs you have in the last several years been making a substantial effort to bring about a large and continuing increase in rice production. I am aware also that you have attached the highest priority to this effort and have set in your current Five-Year Plan a very high and ambitious target which calls for an increase of 50 per cent in rice output in the five years of the Plan period. I am also aware that you have attempted a number of variants of the Bimas program and are shifting, as of the beginning of the next wet season, entirely away from the Bimas Gotong Royong programs in which foreign companies provided supplies and services to the national Bimas program, in which the Bank Rakjat will provide credit to farmers, a number of private and state enterprises will be responsible for the distribution of fertilizers and plant protection materials, and Bulog will continue to be responsible for the implementation of your price support program. I am aware also that your Department of Agriculture and our Resident Staff are currently planning and arranging for a systematic, comprehensive and detailed evaluation of the rice production program and the various elements which compose or are relevant to this program. We anticipate that this examination will produce information and analyses which will be of great help in improving the program which is now being conducted. Consequently, I have relatively few suggestions which it is appropriate to make at this time. A number of points are nevertheless worth mentioning:

- (1) Although no single factor will in itself ensure significant increases in rice production, the most important of the various factors is probably the assurance to farmers of a minimum price which will permit them to invest in the modern inputs required for increasing rice yields and will give them the incentive to do so. Experience everywhere in the world has demonstrated that most farmers, whatever their degree of formal education, respond significantly and promptly to price incentives. I believe it has already been demonstrated that Indonesian farmers are no exception to this generalization. Consequently, I believe that you took a most important step last year when you decided firmly on a policy of

minimum support prices to farmers combined, through the operation of a buffer stock-procurement-sales program, with the maintenance of a reasonable stability in consumer prices. I suggest that it will now be critically important to review the initial decisions made in respect to the level at which support prices have been set to determine whether they do in fact provide adequate incentives to farmers. It will be necessary, I am sure, from time to time to make adjustments in the level of these support prices. The program evaluation to which I refer above is intended, among other things, to develop a basis and a mechanism for the necessary review and adjustments.

- (2) It will also be essential to ensure that Bulog has and effectively deploys the resources required to implement the price support policy, including experienced personnel, crop forecast information, market intelligence, storage capacity and supply mobility. Experience in recent years elsewhere has indicated that effective implementation of a price support policy is a very large and demanding effort. Consequently, I suggest that Bulog be relieved of other functions and duties in order that it may concentrate all its resources on this effort alone, involving the operation of a buffer stock with procurement of rice at home and abroad, and injections of rice into domestic markets in the interests of ensuring prices to producers which do not fall below pre-determined levels and consumer prices which do not rise above pre-determined levels. It should be relieved of the responsibility of distributing rice to Government, civilian and military agencies which compensate their employees partly in kind. I suggest that, given the price stability which you have achieved, you should now be able to abandon the system of payment in kind in favor of compensation in cash. It should be possible, if necessary, to reassure Government employees by providing that cash salary and wage payments would be appropriately increased if rice prices should rise.
- (3) Other major elements in the program are production credit for farmers and improved processing, storage, transport and marketing facilities for rice. I understand that studies of the latter are about to be undertaken out of which there should emerge concrete programs of action. In respect to credit, I suggest that the program now being developed for extension of credit by Bank Rakjat and its implementation be systematically and carefully evaluated with a view to such modifications as may be necessary and appropriate. We are prepared to assist in this.

I hope that these suggestions will prove useful to you. As I stated at the outset, I appreciate fully that few if any of the suggestions made in this summary represent new ideas to you and that what you need is assistance in elaborating them into full operational programs and help in the institution of these programs. I would like to assure you again that the Bank is prepared to assist in a variety of ways in this elaboration and implementation. I hope that you will not hesitate to discuss with our Resident Staff how we may do so.

Sincerely,

15/ Robert S. McNamara

Robert S. McNamara

BRBell/RJGoodman:grk
August 13, 1970

Files

June 8, 1970

Raymond J. Goodman

INDONESIA: Discussion with President Suharto.

Mr. McNamara, accompanied by Messrs Knapp, Shoaib and Goodman, called on President Suharto at Blair House on May 27. Also present were the Minister of Foreign Affairs, H.E. Adam Malik, Professor Wijoyo, head of Bappenas, and the Ambassador, H.E. Soedjatmoko.

President Suharto said how grateful Indonesia was for the technical and financial help of the Bank Group, and in particular for the assistance of the Bank Resident Mission. He regarded the Bank and the IMF as having a most important role in the economic life of his country and in its relations with donor countries through the IGGI. He mentioned the readiness of his Government to adopt new policies on the advice of its friends, and referred in particular to the April decisions on the exchange rate. The objective was to ensure that the Indonesian people should feel that life was becoming better. Mr. McNamara, after thanking the President for his remarks, congratulated him on his political courage in taking these decisions and said that Indonesia had great opportunities before it but that it also confronted a number of serious problems*:-

1. Administration. There were too many civil servants, not all of them competent, and none of them adequately paid. This led to inefficiency and corruption, problems which would become more of a burden as the development tasks became more difficult. He offered to put on paper some suggestions as to how the administrative problems might be tackled. President Suharto accepted this offer and then talked at some length about corruption, a phenomenon he attributed mainly to the bad economic situation in the country.

2. Rice Production. Mr. McNamara noted that the aim was to achieve self-sufficiency in rice by 1974 and said that on this subject also the Bank would be glad to put its suggestions on paper. President Suharto again accepted.

* For a fuller statement see background paper attached to my Memorandum to Mr. McNamara of May 25.

June 8, 1970

3. Population Planning. Mr. McNamara said how important it was to reduce the growth of population but acknowledged that this was a very complicated problem which so far only Korea and Taiwan had tackled with any practical results. The Bank had limited experience in this field, but would be glad to give such assistance to the Government as it could through the Resident Mission and drawing on the experience of other agencies. President Suharto thanked Mr. McNamara for this offer. He said that the Family Planning Program was already accepted by the Government but that the real difficulties were to get it accepted by the public, especially the religious leaders, and to ensure that the program was implemented. He had just appointed a well-qualified official to be responsible for family planning and would welcome any suggestions from the World Bank.

4. Long-term Planning. Mr. McNamara said that economic management had been good so far but that there was now a need to look further ahead, say over the next 10 years. The World Bank would be sending an economic mission to look into this later in the year, and we would of course make its comments and suggestions available to the Government. President Suharto agreed that a longer perspective was necessary but noted that any long-term plan, since it would go beyond the mandate of the present Government, would have to be submitted to the people for their approval.

cc: Mr. McNamara
Mr. Knapp
Mr. Shoaib
Mr. Tolbert
Mr. Bell

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 25, 1970

FROM: Raymond J. Goodman *RJG*SUBJECT: INDONESIA: Your meeting with President Suharto

The Bank Group and the members of the Inter-Governmental Group on Indonesia consider Indonesia's recent economic performance to be good. The recent exchange reform is evidence of Indonesia's ability to take appropriate policy decisions when the occasion demands. In recognition of Indonesia's special difficulties, but also of the Government's commitment to economic rehabilitation and development, bilateral aid has been given in substantial amounts and on much softer average terms than for any other large developing country. The debt settlement reached in Paris last month is testimony to the confidence which the Western creditor countries and Japan have in Indonesia's present management of its economy.

There are, however, a number of less tractable problems, mostly administrative but all critical in the development effort, to which increased Government attention needs to be given. You may wish to discuss some of these matters with President Suharto, and in particular the following:

- (i) development administration
- (ii) rice policies and programs
- (iii) population policies
- (iv) longer-term planning

The issues are summarized in the attached brief which also contains notes on the exchange reform, on the April IGGI and Paris Club meetings, and on IDA lending operations in Indonesia.

attachment

Status of 3rd R only
1. 500 x 2.5% debt settlement
2. Opposition to harder credits

BACKGROUND PAPER FOR MR. MCNAMARA'S MEETING
WITH PRESIDENT SUHARTO ON MAY 28, 1970

I. Development Administration

The major obstacle to an accelerated development effort is the present condition of Government organization. There is considerable over-staffing in most public enterprises and administrative departments, but at the same time a shortage of technical supervisory and managerial talent throughout the public sector. Government cash salaries are very low, notwithstanding a recent 50 percent across-the-board increase, and are supplemented by payments in kind (mainly in rice) and the provision of free services including housing and transport. The commodity payments are wasteful and no longer necessary or desirable now that economic stability has been largely attained. Housing and transport are allocated in ways that do little to promote or reward efficiency. Selective increases in cash salaries are urgently required. At present, the personnel system which could provide the basis for such increases, and for a systematic approach to the problem of redundancy, scarcely exists.

Reforms in institutions and their procedures are required to reduce the level of administrative corruption which (as President Suharto reported after recent informal visits to the provinces) involves the mismanagement of funds for development projects.

Among the specific requirements are: (a) the creation of a system of personnel administration to obtain information on the magnitude and distribution of over-staffing, to provide a basis for selectivity in future salary measures, and to attack the problem of civil servants holding two or more posts; (b) the elimination of payments in kind and the reduction and redistribution of other non-cash benefits; (c) the elimination of the present system of cash payments for all public sector transactions, as a step towards reducing corruption; and (d) the proper definition of the status and responsibilities of Government agencies (as an example of the problem, BAPPENAS, the Planning Organization, has no legal status at present).

The Bank Group promotes institution building and administrative reform mainly through covenants imposing sound management and operating procedures, some of which require legislation and will thus have come to the direct notice of President Suharto. IDA credits to Indonesia have provided for substantial technical assistance; and the activities of the Resident Staff are also valuable in this context. The reorganization initiated in these ways needs, however, to be part of a much wider effort by the Government to build an efficient administrative and operational machinery which will support increased public investment and private enterprise. The process can be accelerated if additional technical assistance is provided from appropriate bilateral sources. Through the Resident Staff the Bank would be able to assist in coordinating this assistance.

*Copy memo
with suggestions*

The implementation of a sound public sector development program requires not only good project preparation and administration, but also careful monitoring of actual progress both in financial and physical terms. The virtual absence of a reporting system to provide a flow of information to those directing the development effort makes it impossible to assess the progress made and its impact on the economy. In this area, urgent measures have been recommended and are essential.

II. Rice Policies and Programs

The rice price support policy established in November 1969 does not appear to have been satisfactorily implemented because of inadequacies in BULOG, the official rice procurement agency. On the production side, the BIMAS Gotong Rojong rice development program, financed expensively by suppliers' credits and involving major losses met from the Development Budget without proven results in increased rice production, is under Government review.^{1/} The programs urgently need modification, reduction in scope and at least partial replacement by more orthodox arrangements. Rice imports amounted to nearly 900,000 tons in 1969/70, about 45 percent under commercial arrangements and the rest in aid. Requirements may be even larger in 1970/71, with a higher proportion of aid. There is some doubt that the request for 550,000 tons under PL-480 can be fully met. *side memo*

With credits for the PUSRI fertilizer project and for irrigation rehabilitation (\$5 million in FY1969, \$18.5 million for the proposed Djatiluhur credit in June 1970 and \$17 million earmarked for a third project in FY1971) IDA is sufficiently involved in rice development to make this a suitable opportunity for a discussion of progress in the rice economy in relation to the Government's main economic target, the attainment under the current Five-Year Plan (1969/74) of self-sufficiency in rice.

III. Population Policies

The jointly-sponsored UN/WHO/Bank report on Family Planning in Indonesia was completed on April 27 and is shortly to be presented to the Government. A five-year program for Java and Bali has been outlined, with a target of six million new "acceptors" by 1975 and a population growth rate that would be 8.5/1000 lower than otherwise for the two islands and 5.5/1000 for the whole of Indonesia. If the program is accepted and effectively supported by the Government, a useful impact can be made in one of the world's most densely populated areas. An IDA project is likely to be identified during 1970 and this should help to stimulate action on the program as a whole.

^{1/} A report just received by the IMF from their Resident Representative in Djakarta indicates that a Cabinet decision was taken last week to abolish this program after the current crop season.

IV. Longer-Term Planning

Indonesia has been able to devote little attention so far to the formulation of medium and long-term socio-economic objectives. Considerable importance is attached to the Five-Year Plan (1969/74) but this is more a general indication of priorities than a comprehensive program for the allocation of development resources. By now, however, sector surveys and pre-investment studies are underway in almost all major sectors, and at least preliminary results for many of these should be available by the end of 1970. The stage has been reached at which the Government should give greater emphasis to the establishment of a coherent development strategy for the 1970's.

Among other pressures for longer-term planning is the growing feeling within the IGGI that the phase of emergency relief to Indonesia, determined on an annual basis, should be nearing its end, and that by now some longer-term thinking on aid requirements is called for. We propose to arrange a Bank mission to look into Indonesia's capital requirements over the next few years and to report to the IGGI session in April 1971, and are otherwise ready to assist the Indonesian Government towards more comprehensive and firmly-based planning for future development.

V. Recent Developments

1. Exchange Reform

On April 17, in the context of an IMF standby arrangement, the Government announced fundamental reforms in the exchange system, involving the unification of the two exchange markets at Rp 378 to the US dollar, the higher of the two rates (the former major rate of Rp 326 was however maintained for program aid transactions), the simplification of export tax arrangements and the abolition of the "overprice" system which had legalized the generation of foreign exchange outside Government control.

2. The Paris Club Agreement

On April 24 the Government accepted the proposals of the Paris Club for a long-term settlement of Indonesia's pre-1967 external debt of \$2,090 million. The agreement provides for the repayment of the principal (\$1,645 million) in equal annual installments of \$55 million over 30 years from 1970. There is a provision enabling Indonesia to defer part of these payments (up to 50 percent of the installment due in any year, but not more in total than three times the annual installment amount) in the first 8 years. Contractual interest (\$445 million) will be repaid in 15 equal annual installments over the second half of the 30-year period. The question of acceleration of payments, and of a reduction in the amount of contractual interest, may be raised after 1980. The firm obligations the Government has now assumed for loans contracted during the previous regime will have an important and positive effect on Indonesia's international financial standing. The Government has stated its intention to seek early bilateral agreement with the Paris Club creditors, which hold some 37 percent of the debt, and with the USSR and other creditors outside the Club, the latter on terms not more favorable than those agreed in Paris.

3. Aid Requirements, 1970/71

The Indonesian Government's aid request to the IGGI last fall, endorsed by the Bank and the Fund, amounted to \$600 million for the period January 1, 1970 to March 31, 1971. At the IGGI meeting last month, express or implied commitments of aid to Indonesia amounted to roughly \$570 million, and the balance seems likely to be committed during the next few months. The overall amount of aid may meet the target, even including some increase in food aid requirements in view of the present crop outlook for this year. There is likely, however, to be some difficulty regarding the composition of aid. Commitments for non-food program aid are estimated at \$177 million, \$23 million less than requested. This category is especially important to Indonesia for generating local currency to help finance the development program, as well as for balance of payments support. Project aid on the other hand may be over-subscribed, and the Indonesian authorities are now seeking agreement of some donors, including the United States, to shift commitments from project to program aid.

4. Terms of Aid

Indonesia is receiving aid on much softer average terms than any other major developing country, and the Bank attaches great importance to this. Our debt service projections assume new DAC terms (8 years grace, 30 years maturity, 2-1/2% interest) as an average for all aid, but even so, external debt service could again become a problem by the late 1970's.

This consideration reinforces the view that at this stage Bank Group assistance to Indonesia should continue through IDA alone, improving the average terms for aid to Indonesia as a whole. Because of the difficulties of project preparation, scarcity of IDA funds to date have not been a limiting factor, but this situation will change.

While any likely IDA allocation to Indonesia can be expected to be fully utilized, it would not be in Indonesia's own interest to seek supplementary Bank lending while bilateral aid on DAC or softer terms is available. A more likely Indonesian problem will be to prepare enough projects to maintain future bilateral commitments of project aid at current levels.

5. Lending Operations

The following credits to Indonesia have been approved:

No.	Fiscal Year	Purpose	Amount (\$ millions)	
			IDA	Undisbursed
127	1969	Irrigation Rehabilitation	5.0	2.8
135	1969	Technical Assistance	2.0	1.8
154	1969	Highways Rehabilitation	28.0	28.0
155	1969	Estates Rehabilitation	16.0	15.8
165	1970	Electricity Distribution a/	15.0	15.0
-	1970	PUSRI Fertilizer Expansion b/	30.0	30.0
			96.0	93.4

a/ Not yet effective.

b/ Approved May 12; not yet signed.

As the table suggests, operations in Indonesia are still in their early stages, with disbursements of only \$2.6 million to date, mainly for the first irrigation project. One reason has been the difficulties of making credits effective. It is hoped that increasing familiarity with IDA requirements and procedures will lead to an early increase in the rate of disbursements, but it will be some time before the physical impact of Bank Group operations begins to show and considerably longer before any returns to the economy accrue.

The PUSRI project, with foreign exchange costs of \$68 million to be jointly financed by IDA, USAID (\$20 million), Japan (\$8 million) and the Asian Development Bank (\$10 million) is the first credit wholly for new development in Indonesia. The remaining projects for FY1970 are:

<u>Purpose</u>	<u>Amount (\$ millions)</u>
Agriculture Estates II	17.0
Irrigation Rehabilitation II	18.5
<u>or</u>	
Telecommunications a/	<u>12.8</u>
TOTAL for FY1970 (including PUSRI and Electricity Distribution credits)	<u>74.8 or 80.5</u>

45
 17.0 } 80
 18.5 } 51

 130

For FY1971 the following projects are under consideration:

<u>Project</u>	<u>\$ Millions</u>
Fisheries	3.5
Irrigation Rehabilitation III	17.0
Seeds Production	8.0
Education	5.0
Technical Assistance II	2.0
Telecommunications a/	12.8
<u>or</u>	
Irrigation Rehabilitation II	<u>18.5</u>
	<u>48.3 or 54.0</u>

80 1180
 55 120

 135 5900
 436
 118

 147500

a/ The Telecommunications project, for which negotiations are complete, will replace the Irrigation Rehabilitation II project in the FY1970 program if this is subject to delay in fulfilling conditions for Board presentation.

If the total IDA allocation for FY1970 and 1971 is limited to \$140.5 million, as suggested to you in Mr. Knapp's memo of May 6, there would be \$12 million available for other projects in 1971. The candidates are Highways II (up to \$40 million, of which \$12 million could be approved as a first stage), DFC - Bapindo (\$10 million) and Family Planning (\$3 million). The selection depends mainly on progress in preparation. We place high priority on the BAPINDO and Family Planning projects, but it is unlikely that either can be prepared in time for presentation in FY1971.

There are no specific operational issues which would warrant discussion with President Suharto.

cc: Mr. Shoaib
Mr. Knapp

K
12

OFFICE MEMORANDUM

TO: Mr. McNamara

FROM: Raymond J. Goodman *RJG*

SUBJECT: INDONESIA - Meeting with Dr. Sumitro Djojohadikusumo,
Minister of Trade

DATE: August 3, 1970

Dr. Sumitro's call on you at noon today will be in the nature of a courtesy call. We have no issues to take up with him nor to our knowledge does he have any to raise with you. You have Mr. Tolbert's memorandum of July 14 giving background information on Dr. Sumitro. You may be interested to know the remainder of his schedule here.

Dr. Sumitro has just attended a conference on "Indonesia - Plans and Prospects" organized by the University of Wisconsin (where Mr. Tolbert also spoke). He will be in Washington today and tomorrow only. Besides lunch with Mr. Schweitzer today and with Mr. Knapp tomorrow, he will have met this morning with U.S. Assistant Secretary of State (for Economic Affairs) Tresize and others, to discuss tin and rubber stockpile disposal problems and U.S. oil import quotas. Tomorrow morning he meets Secretary of Commerce Stans and/or Under Secretary Siciliano, to discuss the same matters and general U.S. - Indonesia trade questions. He will meet tomorrow afternoon with Dr. Hannah of AID, and with Assistant Secretary of Agriculture Palmby, to discuss PL480 rice and wheat flour imports into Indonesia.

Dr. Sumitro is concerned with the utilization of all program aid from the various donors, including food aid, but his connection with our projects is indirect. He has a major role in determining policy on fertilizer imports, of considerable significance to the PUSRI project, and in the marketing of exports such as rubber and palm oil, which are being expanded by our estate rehabilitation projects. He may already be aware that we are planning for FY1972 additional projects for rehabilitation of rubber and palm oil estates and new projects for tea estates and small-holder rubber.

President has seen

7/15 To Mr. Tolbert 80
I will be happy to see Sumitro, but I don't want to mess him up for an appt.
L. M. W.

OFFICE MEMORANDUM

TO: Mr. McNamara (through Mr. Fontein) DATE: July 14, 1970

FROM: Stokes M. Tolbert *SMW*

SUBJECT: INDONESIA - Visit of Dr. Sumitro, Minister of Trade

We have received word that Sumitro will attend a conference at the University of Wisconsin from July 30 to August 1. While in the country, he is also expected to visit Washington, probably on August 3 and 4. I recommend strongly that you see him if a suitable time can be arranged.

Sumitro is a leading member of the present economic leadership of Indonesia. His name is, in fact, better known throughout the country than Widjojo's. Whereas Widjojo is the policy-maker, Sumitro is the operator and organizer. He is honest, keenly intelligent and, more so than the rest of Indonesia's economic leadership, an excellent administrator. He runs one of the better organized and more effective ministries.

Sumitro's background includes the study of economics in Rotterdam (1938-1946, some of the time under Dr. Lieftinck), after which he returned to Indonesia in 1949 and joined the Faculty of Economics of the University of Indonesia. He was Dean of that Faculty when Widjojo and the rest of the economic team were students or young faculty members there. He became the boy-wonder Minister of Finance in the mid-50's - and the great hope of the foreign aid donors for a reversal of Sukarno's disastrous policies - but soon resigned or was thrown out because of disagreement with Sukarno. In 1958 he became one of the leaders of the outer island rebellion against Sukarno, and was responsible for financing and procurement of arms and supplies which helped to keep the rebellion alive in North Sulawesi for three years. He then went into exile - much of the time in hiding from Sukarno's agents - until late 1967, when the New Order government decided it was safe for him to come home. Several months later, in June 1968, he was named Trade Minister in Suharto's new "Development Cabinet" in which the economic team generally was given ministerial authority commensurate with their responsibility for economic policy.

Appointments are being arranged for Sumitro by the State Department with the Secretary of Commerce and a number of other U.S. officials. The schedule is still being worked out. I would appreciate, as soon as convenient, an indication as to whether you can see him so that we can coordinate with the State Department on the timing and also ask Bernie Bell to inform Sumitro.

cc: Mr. Knapp
Mr. Shoaib

13

OFFICE MEMORANDUM

9/22
Mr. McNamara
Mr. Knapp
Mr. Cope
Mr. Bell

To: Files
From: Gordon M. Street
Subject: Indonesian Delegation Meeting with Mr. McNamara
on September 22 at 9 a.m. at the Bella Center

Copenhagen, Denmark
September 23, 1970

Those present for Indonesia were Mr. Ali Wardhana, Minister of Finance, Mr. Radius Prawiro, Governor of the Bank Indonesia and Mr. Suwito Kusumowidagdo, Ambassador to Sweden. Present for the Bank were Mr. McNamara, Mr. Knapp, Mr. Shoaib, Mr. Goodman and Mr. Street.

The meeting opened with the usual exchange of courtesies. Mr. Ali Wardhana then explained that while things were moving along fairly smoothly, some difficulties had arisen in connection with the debt rescheduling plan. While agreement had been reached with the Russians, agreement had not been reached with the Germans. The Germans considered interest on the debt rescheduled during the period 1967-69 as principal for purposes of the Abs formula. The Indonesians took the position that this should be treated as interest. The Russians, and the Dutch, have accepted the Indonesian's position. The Indonesians are somewhat concerned as they had hoped that all the Eastern European countries would follow the Russians, but they now fear that disagreement with Germany may jeopardize the chances for agreement with the Eastern European countries.

Mr. Ali Wardhana then with some reluctance, knowing the position of the Bank Management and the Executive Directors, raised the question of program aid from IDA for Indonesia. He argued that in the current year program aid from bilateral sources will fall short of the target. The bilateral donors feel that program aid can be reduced at a faster rate than the Government thinks advisable. Mr. Wardhana asked, therefore, that the Bank urge bilateral donors to continue to give Indonesia sufficient non-project aid which Indonesia would prefer to get from bilateral donors, particularly if the aid were untied. Mr. McNamara confirmed that the Bank would urge bilateral donors, particularly the US, to continue their non-project aid programs in Indonesia. He went on to say that it would be very difficult for IDA to furnish non-project aid to Indonesia. First, because the IDA's Charter provides that such aid can only be given in exceptional circumstances, which are ill-defined. Consequently, traditionally the Bank Group has confined its activities principally to project lending, a policy which the Bank Management felt was justified and which the Executive Directors, Governors and the member governments themselves fully supported. Secondly, IDA does not have sufficient information about the aid flows to Indonesia to support the thesis that a resource gap is developing which must be filled by non-project aid having higher priority than the various projects IDA is prepared to finance. While he could give the Minister little assurance that IDA would provide program aid as he did not think this case could be made, he did undertake to examine the situation. He pointed out, however, that in any event program aid from IDA would be in substitution for, rather than in addition to, project aid because IDA funds are so limited, and this would mean

President has seen

INDONESIA

September 22, 1970

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giving up the financing of projects, which we believe are of high priority. Moreover, dropping projects from our lending program would eliminate the possibility of furnishing technical assistance to the agency or agencies executing the projects, an unfavorable prospect in view of the very great need for institution strengthening in Indonesia.

cc: Messrs. McNamara
Knapp
Shoaib
Cope
Chadenet
Bell

14

MEMORANDUM FOR THE RECORD

SUBJECT: Indonesia

Mr. Ali Wardhana, Minister of Finance, met with Mr. McNamara in the Sheraton Park Hotel on Wednesday, September 29, 1971 at 1 p.m. Minister Wardhana was accompanied by Mr. Radius Prawiro, Governor, Bank Indonesia, and Mr. Bianti Kharmawan, Executive Director for Indonesia, IMF. Mr. Knapp, Mr. Shoaib, Mr. Chenery, Mr. Goodman, Mr. Bell and Mr. Tolbert also were present.

External Aid Prospects: The Finance Minister noted that there had been a number of changes in the personnel concerned with aid to Indonesia in major IGGI donor governments - the U.S., Japan, and the Netherlands. He feared that Indonesia might not find this year the same degree of understanding and support of its position as in previous years, and the IGGI might fall short of meeting what could well be a somewhat increased aid requirement. The Bank and the Fund had an extremely important role in strengthening international confidence in Indonesia's performance and its ability to use aid effectively. The Bank and the Fund, he hoped, would take a "more active" role in presenting Indonesia's case as compared to previous years. He had detected some feeling within the Fund that this was not the Fund's proper role but was more the job of the Bank.

The Minister pointed out that the form as well as the amount of aid was important; continuing difficulties in raising adequate domestic budgetary resources made it essential that Indonesia continue to receive substantial program aid. Apart from the demands of development, there was a pressing need to expand further the routine budget, which had been starved but must be increased to a level adequate to provide an acceptable standard of public services. Donors were increasingly reluctant to provide program aid, and he hoped the Bank would press this issue especially with the donors. He feared an actual cut in total aid from the U.S. following the Administration's recent announcement of a 10 percent global aid cut, and there were indications that the Japanese might reduce their aid or at least refuse to increase it above last year's level.

Mr. McNamara said that we would of course continue to give Indonesia all the support we can. He had already spoken to the Finance Ministers of Japan and the Netherlands regarding the importance of continued support for Indonesia's development effort. He had not, of course, talked in terms of specific figures. He was not as worried as the Finance Minister about the prospects for aid to Indonesia. The Japanese authorities had given him no indication of any prospective cut in aid. He would again raise the matter with Finance Minister Mizuta when he visited Tokyo in November, and he asked that Mr. Goodman remind him to do so. He pointed out, on the other hand, that a major element in obtaining continued external support was Indonesia's own revenue performance. He was happy to see the prospective increase in oil revenues but the donors will, of course, be looking at the domestic revenue performance as well, and it was important that Indonesia's domestic effort continue to match the performance of recent years. An adequate performance on domestic revenues would be essential to any effort by the Bank to obtain increased aid commitments, including program aid, from the IGGI donors.


President has seen

Second Fertilizer Project: The Finance Minister then turned to the question of possible Bank financing of a second fertilizer project in Indonesia, to be developed by Pertamina using the gas reserves in West Java. Mr. McNamara said that we were interested in helping expand fertilizer production, as our assistance to PUSRI demonstrated, but that he was unfortunately not familiar with the project, that he had not yet had time to study the proposals which he was aware Mr. Bell had discussed with the Government, and that we would have to give an answer later.^{a/}

Visit to Indonesia: The Finance Minister expressed the hope that Mr. McNamara could soon visit Indonesia again, possibly during his forthcoming trip to Asia. Mr. McNamara expressed his appreciation but said it was impossible to fit in such a visit during this trip; he hoped that sometime in the next year or so he would be able to arrange a visit to Indonesia at a mutually convenient time.

Estates Management: Mr. McNamara then raised a point which he noted was a cause of concern to the Bank staff and which troubled him as well, i.e. the management of the rubber and oil palm estates groups to which we had been providing aid. He noted that Mr. Goodman and Mr. Bell would be discussing the matter further with the Indonesian authorities, and pointed out that it would be difficult for the Bank to continue lending in this sector unless management were improved sufficiently to realize the full potential of the estates and to use the aid effectively. The Finance Minister replied that the Government was aware of these problems and already had them under study; it was anxious to improve management in this area, and expected to benefit from the suggestions of the Bank staff.

^{a/} This matter was discussed with Mr. Knapp on October 4. The terms and conditions on which we would offer to assist in financing the project are spelled out in Mr. Goodman's Memorandum to Files of October 6, the substance of which has been approved by Mr. Knapp and Mr. McNamara.


Stokes M. Tolbert
October 8, 1971

cc: Mr. McNamara
Mr. Knapp
Mr. Shoaib
Mr. Chenery
Mr. Bell

Cleared with & cc: Mr. Goodman

cc: Mr. Fontein
Mr. Street