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Washington, D.C.

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McNamara Papers

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A1993-012 Other #: 9

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Contacts with member countries: Indonesia - Correspondence 03

Contacts

Indonesia (1978-1981)

A 1993-012

Box 9

Folder 3

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OFFICE OF THE PRESIDENT

Meeting with Mr. Widjojo, Indonesian Minister of State for Economy, Finance and Industry, and Ambassador Ashari, August 7, 1978

Present: Mr. McNamara, Minister Widjojo, Ambassador Ashari

Mr. Widjojo reported on the ASEAN-U.S. meeting which took place in Washington. The focus had been on (i) a preferential trade agreement between ASEAN countries, covering more than 70 items; (ii) preferential treatment in times of shortages of food and energy (particularly between Indonesia and Thailand); (iii) joint efforts on food production, e.g., through IRRI; (iv) industrial development through priority projects jointly owned by the five ASEAN countries, e.g., a fertilizer plant in Indonesia; (v) joint communication projects, e.g., undersea cables between Jakarta, Singapore, Manila and Bangkok; and (vi) a common tourism policy for the region. Mr. McNamara said that he was delighted to see the progress of regional cooperation among ASEAN countries. There were very few examples of successful regional integration in the world; e.g., the East African community had disintegrated in recent years. The Bank was anxious to support the ASEAN countries in their regional cooperation efforts.

Mr. Widjojo said that his Government was grateful to the Bank for its support of the formulation of the third five-year plan. He was particularly grateful to Mr. Husain who had been extremely helpful. The plan emphasized food production and employment creation. Mr. McNamara said that the Bank could provide considerable assistance on food production. Employment creation posed a much more difficult problem, particularly since off-farm employment had to increase substantially.

With regard to food production, Mr. Widjojo said that his country had benefitted from the contribution of Sir John Crawford who intended to visit more frequently in the future. The Government was aware that food production efforts should not be limited to rice and that a broader emphasis on nutrition was required. The example of the Jatiluhur rice irrigation area had shown that the impact of a drought had become particularly severe because home gardens had been abandoned in favor of an expanded area of rice irrigation. Also, rice irrigation had led to the discontinuation of the practice of keeping village rice stocks. The transmigration program continued to receive high priority. The Government hoped that the organizational problems had been resolved. The Bank had been helpful in identifying the bottlenecks. In order to increase employment opportunities, the Government was aiming at a large industrialization program which would develop labor-intensive industries of any size. He would like to see the industrialization effort linked to an export strategy; studies on export processing zones were underway. The industrial sector had to be made more attractive to private investment. Mr. McNamara said that both export promotion and labor-intensive employment creation were very important issues for the Government to deal with. Korea was a good example of the successful implementation of such a policy.

Mr. McNamara enquired about the Government's plan for obtaining a satisfactory level of public savings. Mr. Widjojo replied that, unlike Repelita II, Repelita III had to start from the projection that oil revenue--both in terms of external and public sector revenue--would not increase as fast as in the past. Non-oil resources had to be tapped. Mr. McNamara pointed to the very low energy consumption per capita in Indonesia as compared to other countries. Energy consumption would certainly increase despite conservation efforts. An increase of internal

petroleum prices--which were only at about half the world market level--had to be acted upon. Mr. Widjojo agreed. In view of the substantial subsidy, the Government would have to move fast on this issue. The political climate enabled it to do so. Public savings would also be increased by improved administration of existing taxes, excise taxes and import duties, and new sources of taxation (e.g., an urban land tax for local governments).

Mr. Widjojo said that a good Bank program for Indonesia was being developed. The Bank was willing to take up the chairmanship of the IGGI but his Government first had to resolve a problem with the Dutch Government on this issue. The new Dutch Government was eager to improve its performance with regard to Indonesia and felt that it should continue its present responsibility; Indonesia and Surinam were the two countries of emphasis under the Dutch aid program. The Indonesian Government wanted to part on good terms. In September, the Dutch Minister of Economic Development would be in Jakarta to discuss this issue. Two IGGI meetings were scheduled for next year: the first to focus on the Bank's report and to consider the country's development prospects, and the second to receive aid pledges. Mr. McNamara emphasized that the Bank did not want to take any initiative on the IGGI chairmanship; this had to be left entirely to the Indonesian Government. The group worked effectively and the country needed immense amounts of external capital in order to meet the country's development targets, particularly in the field of employment creation. Oil revenues per capita were relatively low. If a satisfactory level of internal resources mobilization were achieved, external resources could be mobilized more easily.

Mr. Widjojo said that, in order to increase external revenues, the country's extensive gas fields would be developed for export purposes. Exports to Japan had been started and large fields were reserved for gas exports to the U.S. In order to achieve the plan's targets, training and education had to be given particular attention; skilled manpower was becoming a serious bottleneck. A recent Bank mission had studied the problem.

In conclusion, Mr. McNamara urged Mr. Widjojo not to hesitate to let the Bank know how its contribution could be made more effective. He was glad that Mr. Husain had made such a particularly helpful contribution.

cc: Mr. Husain

Caio Koch-Weser
August 10, 1978

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: August 4, 1978

FROM: Stanley Please, Acting RVP, AEN

SUBJECT: INDONESIA: Professor Widjojo Nitisastro's Visit

1. You are meeting with Professor Widjojo, Chairman of the National Planning Agency (BAPPENAS) at 11:45 a.m. on Monday, August 7. A personal profile of Professor Widjojo is attached. Professor Widjojo is in Washington to participate in the joint ASEAN-US discussions on Economic Cooperation. You last met him at lunch on April 14, 1977.
2. His visit comes at a critical time, with the preparation of the Third Five-Year Plan at its peak, and an anticipated announcement by the President of its broad outline in his speech on August 17.
3. Mr. Husain's letter to you dated July 18 (a copy is attached) highlights issues of concern which he hopes you will be able to discuss with Professor Widjojo and later with the President, when you visit Indonesia. Mr. Husain singles out the following central issues which the Government must address if the momentum of growth and employment is to be maintained:
 - (a) A vigorous effort to mobilize domestic resources, i.e. maintenance of the public savings ratio at least at the current level of about 9 percent G.D.P.
 - (b) Formulation and implementation of a food plan.
 - (c) Revitalization of industrial investment, initially by streamlining and eliminating control and fiscal procedures and policies, and, if necessary, by adjusting key prices.
4. For our part we stand ready to work with the Government on these issues and we have recently made organizational and staff changes to help us better address this challenge.
5. Mr. Husain suggested, and you agreed, that you meet Professor Widjojo alone. It is our understanding that Professor Widjojo will be accompanied by the Ambassador to Washington Mr. Ashari.

Attachments

NHanna/RStern:la

Profile:

Name : NITISASTRO, WIDJOJO
Birth : September 23, 1927, Malang (East Java)
Religion : Moslem

Education : Faculty of Economics, University of Indonesia,
Jakarta, Drs.

University of California, Berkeley (USA), Ph.D.
in Economics.

Career

1945-1950 : Member of Student Army, East Java
1950-1953 : Teacher at Secondary Schools, Jakarta
1953-1957 : Planner at State Planning Bureau
1961-1964 : Director of Institute of Economic and Social
Research University of Indonesia concurrently
lecturer at Faculty of Economics University of
Indonesia
1962-1964 : Deputy Dean of Faculty of Economics, University
of Indonesia
1964-Present : Professor of Economics University of Indonesia
1964-1968 : Dean of Faculty of Economics
1962 : Visiting Faculty Member at SESKOAD, Bandung
1964 and at National Defense College Jakarta
1966 : Chairman of Economics Advisory Team to The President
1968-Present : Chairman of BAPPENAS (National Planning Board)
1967 : Chief Delegate to Aid Meetings (IGGI - Inter-
Governmental Group on Indonesia)
1967 : Chief Delegate to Debt Rescheduling Meetings
(PARIS CLUB)
1969 : Member of Governing Council, UN Asian Institute
of Development and Planning, Bangkok,
Member of various UN expert Working Groups
(Planning and Projection, Criteria and Machinery
for performance Evaluation of Second Development,
Decade and others)
1973-Present : Minister of State for Economy, Finance and Industry

The World Bank

190 Stern
RESIDENT STAFF IN INDONESIA: P.O. Box 324 JKT, Jakarta, Indonesia
Telephone—46051-2-3; 357238 • Cable Address—INTBAFRAD JAKARTA • Telex—IBRD JKT 4456

Jakarta
July 18, 1978

CONFIDENTIAL

Mr. Robert S. McNamara
President
The World Bank
Washington, D.C.

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AUG 14 2013

WBG ARCHIVES

Dear Bob:

Widjojo will be in Washington during the first week of August, to participate in the joint ASEAN-U.S. discussion on Economic Cooperation. A meeting between you and him would be very useful, as our future relationship with Indonesia needs to be discussed with him in detail. I suggest that he meets you alone and that the discussion be candid. To brief you, in this letter I am discussing the issues of economic policy and of institutions and procedures. In a way, the latter are the most important and the most difficult to tackle. I hope that you will be able to discuss these, among others with the President, when you visit Indonesia.

The Indonesians are working on their Third Plan (1979 - 1983). Its outlines are supposed to be announced in the President's speech on 17th August. Thinking and work on the Plan is taking place in the context of some perennial problems and some new problems. The perennial problems are population and employment, food production, and the effectiveness and efficiency of Government institutions and policies. The new issues - these are not really new but are assuming new dimensions - are the issues of resource mobilization, resulting at least partly from stagnant production and increasing domestic consumption of oil, and inability of industrial production and investment to make any meaningful contribution to employment and exports. We have done more work on these issues during the last year than ever before, and analyses and reports have been presented to the Indonesians and discussed with them. From my discussions with Widjojo and others, I do get the impression that they are conscious of the seriousness of the issues; they are also conscious that decisions taken now and during the next few years will be harder than at any time during the seventies. However, they seem to have done less to translate their broad concerns into specific plans and policies than would be warranted six months before the Plan period begins; moreover, they do not fully appreciate that the inadequate planning and implementation capacity of the Government may become the most serious constraint to addressing these issues.

During the last several years, Indonesia has been able to sustain a relatively high growth of GNP of around 7 percent per annum. Part of the growth has come from rehabilitation investments in infrastructure, for instance, irrigation. But more importantly, the dramatic increase in oil revenues after

1973 made possible and supported a massive expansion in investment in the public sector. While all of the investments were not well directed, there were substantial multiplier effects on income and employment of sharply higher levels of Government spending. Tentative figures indicate that overall employment grew by 3.5 - 3.7 percent per annum during 1971 - 1976. Income and expenditure data indicate that the real per capita consumption level of the bottom 40 percent increased probably by 10 - 15 percent during 1971 - 1976. Thus, there was a definite trickle down of growth. But on the other hand, there does not appear to have been any improvements in real wages, the gap between rural and urban incomes has increased and income disparities within urban areas have tended to widen. The phenomena of worsening income distribution, notwithstanding some gains in living standards of the poorest group and some reduction in the incidence of absolute poverty, are hardly unique to Indonesia. But the point is worth stressing that employment and the position of the poor would have been a great deal worse but for the unexpected and sharp increase in oil revenues.

A continued high growth rate of GNP of around 7 percent per annum seems a prerequisite for sustaining at least a moderate improvement in the income and employment of the poor. But this will not be attained unless:

- (a) a very major resource mobilization effort is mounted in the public sector;
- (b) there is a substantial shift in the pattern of public investment towards agriculture and rural investments, including restraint on large new capital-intensive projects;
- (c) the effectiveness of the Government programs, especially those dealing with food and agriculture, is greatly increased and the relevant institutions are greatly strengthened;
- (d) there is much greater progress towards labor intensive industries in the private sector.

Our preliminary estimates suggest that without additional taxation effort, the increase in real Government revenues is likely to be limited to 3 percent per annum during 1979 - 1983, while it might be difficult to keep the growth in recurrent expenditures to less than 6 - 7 percent per annum. Thus, public savings may actually decline in real terms unless additional taxation is undertaken. A major issue is the pricing of petroleum products sold domestically; most of these (except gasoline) are priced at less than half of world prices. This contributes to the rapid growth in domestic consumption, and to an increased fiscal burden.

Even assuming that substantial additional taxation (including adjustment of domestic oil prices) can be undertaken, the growth in public savings and investments during the Third Plan will be very slow. Net transfers from abroad, which along with oil revenues, have financed almost the entire public investment in the recent past, are likely to stagnate in the next few years, reflecting substantial debt repayment obligations. Even with an optimistic view of the Indonesian public resource mobilization effort in the

coming years, it is difficult to see public investment growing in real terms by more than 5-6 percent per annum.

The constraint on investment resources will necessitate much greater attention to the resource allocation issues. If the Indonesian Government exercises strict control on new commitments for large capital intensive projects, the situation may prove to be manageable. Otherwise, the investments for alleviation of poverty, unemployment and food deficits are likely to suffer seriously. Shortages of local currency will arise and pressures for inflationary financing will grow. Expenditures on World Bank financed projects are growing rapidly, and could exceed the annual rate of U.S.\$1 billion in the next year or two. Apart from the general economic case for mobilizing domestic resources, adequacy of local cost financing is a matter of special concern to us if we are to achieve the rather large planned level of lending to Indonesia. While there is widespread awareness of the emerging resource constraint among the policy makers, the magnitude of the problem is perhaps not yet fully perceived. Furthermore, the implications of this for new commitments in long gestation capital intensive projects have hardly begun to register. Meanwhile, the costs of some large projects in the pipeline have increased sharply; the Asahan aluminum project (Japanese-Indonesia joint venture) is now estimated to cost \$2 billion, compared with an estimate of \$800 million just a year or so ago.

In terms of sectoral priorities, the importance of food production can hardly be over-emphasized. The level of food output in Indonesia is a major determinant of the income and welfare of the poor. During the last decade, there has been a significant increase in per head consumption of major food crops. However, domestic production has not kept pace with demand, and relative reliance on net imports has increased (although the 1977 import level of 2.5 million tons of rice was exceptional). The trend towards a growing gap between food demand and supply is likely to persist at least till 1985. But a sharp improvement in the recent trend of food production from less than 2.5 percent per annum in the last four or five years to well over 3 percent is possible, although with a major and well-coordinated effort. Secondary crops (maize, cassava etc.) deserve the highest priority. We believe it is feasible to increase food output by 3.2 percent per annum during 1978-85 provided (a) for rice, the ongoing irrigation investments mature on schedule, support services such as research, extension, credit and plant protection are improved, and current price policies continue; (b) for secondary crops, a series of completely new departures are initiated in institution building, and support policies are vigorously pursued. Even with the projected growth of food crops, imports are expected to increase somewhat faster than production, because demand is projected to grow at 3.5 percent per annum. For instance, if rice output grows at 3 percent per annum and there is no shift in demand towards secondary crops, rice imports will be about 2.5 million tons in 1985. If Indonesia relies more heavily than this on rice imports, it might well have to face very steep world prices. Even with the lower rice import level, the overall dependence on net imports of food crops is likely to increase by 1985.

The Government fully shares our concern regarding food supply. It does not follow, however, that the needed agricultural investments will be undertaken and major policy and institutional changes will be brought about speedily. The Bank can play a catalytic role in improving the food policy

framework, since a very substantial part of our total lending during FY79-83 will be directed towards increased food production. During my final meeting with Widjojo and his associates, I have suggested that the Government should undertake the preparation of a very detailed and specific food plan for the decade of the 80's, incorporating demand, production targets, investment requirements, requirements for manpower and other inputs and organizational and policy changes. I have said that the Bank would be prepared to assist the Government in the preparation of this plan, and that the plan should be the basis of future cooperation between the Bank, other external lenders and Indonesia in food production. Banerth will further work on this. I suggest that this should be an important theme in your discussions.

Increased food output in particular, and agricultural output in general, will be an important source of improved productivity in the rural areas. But much of the future employment growth must come from outside agriculture. During the last six or seven years, there has been a fairly rapid growth in the non-farm rural employment. However, much of this employment has apparently been in relatively low productivity occupations. The employment in the modern manufacturing sector has not expanded significantly. It is our belief that in the long run a modern but labor-intensive manufacturing sector must provide a substantial portion of the increment of jobs and exports in Indonesia. A beginning must be made now. Provided the industries are located in the rural areas and have good employment potential, the size of establishments need not be a primary concern. I mention this because current Indonesian thinking seems to regard labor-intensive as identical with very small scale industries. How can a push be provided towards quicker and more efficient industrialization? Again, much depends on government policies and institutional arrangements. At present, the odds are against a revival of private investment activity, and perhaps a key discouraging element is the excessive cost and burden of procedures of one kind or another.

In summary, I suggest that you emphasize to Widjojo that, while we have great hopes about Indonesia's future and have a very substantial program of assistance, we and our partners in external assistance are convinced that the following major issues need to be tackled if the momentum of growth and employment is to be maintained. In fact, Indonesia's capacity to carry its people along depends on these; these are also the major premises on which our assistance program is based.

1. A vigorous effort to mobilize domestic resources, i.e. maintenance of the public savings ratio at least at the current level of about 9 percent G.D.P.
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You might also mention that we stand ready to work with the Government on each of these issues, and that the dialogue and cooperation, particularly

at the working level, needs to be deepened. Towards this end we are expanding the capacity of R.S.I. and have significantly improved the quality of staff working on Indonesia in Washington and Jakarta. As you know, we have created two special divisions to work on food and agriculture in Indonesia.

At the invitation of Widjojo, we are planning another round of discussions at the end of October. These will focus on the complete draft of the Basic Economic Report which we hope to circulate to the IGGI members by early December for a meeting in January/February, 1979.

I have discussed your visit with Widjojo and he is enthusiastic about it.

Yours sincerely,



S. Shahid Husain

c.c.: Mr. Stern
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Mr. Baneth

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The World Bank

8/7
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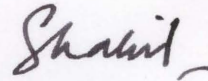
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S. Shahid Husain

c.c.: Mr. Stern
Mr. Please
Mr. Baneth

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INTERNATIONAL MONETARY FUND THE WORLD BANK

Boards of Governors · 1978 Annual Meetings · Washington, D.C.

September 28, 1978

TO : Memorandum for the Record

FROM : Stanley Please, Director, AEA

SUBJECT: INDONESIA -- Meeting Between the Minister of Finance and Mr. McNamara

10/17

1. A meeting was held on September 26 between members of the Indonesian delegation and Mr. McNamara. The following members of the Indonesian delegation attended: Mr. Ali Wardhana, Minister of Finance; Mr. Soegito Sastromidjojo, Director General for International Monetary Affairs, Ministry of Finance; Mr. D. Ashari, Ambassador of Indonesia to the United States; Mr. Rachamat Saleh, Governor, Bank Indonesia; and Mr. Arifin M. Siregar, Managing Director, Bank of Indonesia. The following members of the Bank staff were present: Messrs. E. Stern, Chenery, Husain, Baneth, Koch-Weser and Please. Mr. McNamara began the meeting by congratulating the Government on its handling of the population problem particularly in Java. However, despite the success of the family planning program major problems of providing income-earning opportunities remain and within this context the transmigration program and the program to develop labor-intensive projects were, in the Bank's view, essential. He particularly urged the Indonesian Government not to invest in high capital-using projects unless these both had a high rate of return and contributed significantly to alleviating the balance of payments problem. He said that he was concerned by reports he had recently heard to the effect that major capital-using projects were going ahead which did not necessarily meet these criteria.

2. The Minister emphasized the high level of Bank commitments which had been developed over the past few years but said that the program had appeared to hit problems which prevented the program from going any higher than the present level of approximately \$500 million per annum. Mr. McNamara emphasized that he considered that a level of commitments and disbursements significantly higher than that which at present existed was justified in the case of Indonesia given the size of the country and its potential. He would expect the program to be at a level of something around \$700 million in two years' time and rising to even higher levels thereafter. He emphasized that these high levels would clearly have to be dependent upon the Bank's being satisfied about the creditworthiness of the country which derives in particular from the overall management of the economy. In order to achieve these higher levels it was necessary to set in motion a program of project preparation and he suggested to Mr. Husain that his staff and particularly RSI should work with the Government over the next two years on a program of project preparation. This would provide the basis for the high levels of lending in subsequent years.

Address replies to:

JOINT SECRETARIAT — ANNUAL MEETINGS
IMF — WORLD BANK
WASHINGTON, D.C. 20431

Cable Address:

INTERMEET
WASHINGTONDC USA

Telex Address:

(RCA) 248331 IMF
(ITT) 440040 FUND UI
(WUI) 64111 INTERFUND

September 28, 1978

3. In discussion over the constraints on increased lending and particularly increased disbursements to Indonesia, Mr. Husain emphasized the overwhelming importance the Bank attached to Government action to improve the mobilization of domestic resources. In particular, action on the taxation of fuel was urgent.

4. The Minister of Finance reviewed recent development in agriculture and in the transmigration program. There were good crops this year with rice production up by about one million tons. In the case of non-rice crops such as cassava, the major impediment to production was the limitation on markets particularly in Europe. Overproduction was in fact the problem, not how to increase production. As regards transmigration, the Minister still considered that these programs were going through an experimental phase although they were gathering momentum. A new institutional structure for formulating and implementing the transmigration programs had been established and the willingness of people to move was still strong. The major bottleneck was the absorptive capacity of the receiving areas and this was primarily an organizational problem.

5. Finally, Mr. McNamara hoped that the Minister would support in all possible ways the proposed increase in the Bank's capital. Furthermore, he expressed the hope that he would be able to accept the Minister's kind invitation to visit Indonesia again. Unfortunately he could not say precisely when he would be free from urgent Bank business relating to the capital increase and to IDA replenishment but he hoped it would be early in 1979.

SPlease/lo/lrd

cc: Messrs. McNamara, Stern, Chenery and Knapp
Husain, Kirmani, Baneth, Hasan, Ruddy, Stern, Bottelier

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OFFICE MEMORANDUM

TO: The Files
FROM: Charles Weiss (PAS)
SUBJECT: INDONESIA: Meeting of Minister Habibie with Mr. McNamara
December 4, 1978

DATE: January 16, 1979

Minister Habibie, Minister of State for Research and Technology, met with Mr. McNamara on December 4 as a preliminary to a day-long visit to the Bank on December 6. The Minister was accompanied by a delegation of about twenty Indonesians associated with the Ministry. Messrs. Kirmani and Weiss from the Bank staff were present.

The Minister explained that, in order to develop a national science policy for Indonesia, he had organized working groups on five major topics, each of whom were represented on his delegation: Basic Needs, Energy and Resources, Industrial Development, Defense, and Social Science/Economics/Philosophy. Priorities for research were being set in accordance with the overall National Plan. One such priority is work on alternative sources of energy (including geothermal, solar, gasohol and a "gasoline bush").

1/30
The Ministry for Research and Technology will review and coordinate the scientific and technological programs of non-departmental groups such as the National Academy of Sciences (LIPI); agencies within operating ministries; universities; government-owned companies; and multinational corporations.

The Minister is also the head of the authority for the development of Batan Island. He plans to develop it as a complement to Singapore to provide labor- and land-intensive services. The island will take water and electricity from Singapore.

The Minister also described the industry that his Ministry was setting up for the manufacture of twenty-passenger airplanes. The industry is labor-intensive, now employs 1800 people (expanded from the original 600), and is exporting at competitive prices to Thailand.

The Minister Habibie said that he had not come with a specific request to the Bank but wanted to "visit and say hello."

In response, Mr. McNamara urged the Minister to "keep in touch" with the Bank and specifically mentioned research problems connected with the transmigration project (on which the Minister is on the coordinating board), a major Indonesian project currently hampered by the absence of a low-cost technological package suited to local soils.

cc: Kirmani, van der Tak, R. Stern, Koch-Weser ✓

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara
FROM: S.S. Kirmani, ^{SKK} Acting RVP, AEN
SUBJECT: INDONESIA: Briefing for Dr. Habibie's Visit

DATE: December 1, 1978

It is confirmed that Dr. Habibie, Indonesian Minister of State for Science and Technology, will be meeting with you at 3:30 p.m. on Monday, December 4, 1978. I attach a biography on Dr. Habibie and a short briefing note for the proposed meeting. Mr. Charles Weiss Jr., and myself will attend the meeting.

Attachments:

cc: Mr. C. Weiss Jr.

R/1
REgan/RDStern:ms

BIOGRAPHY

Dr. B. J. Habibie, Indonesian Minister of State for Research and Technology

Born in Pare-Pare, South Sulawesi, June 25, 1936.

Graduate of Technical Institute in Aachen, West Germany, where he majored in aircraft construction. Received his doctorate degree and professorship in aircraft construction technology from Aachen.

After graduation he joined the Messerschmit aircraft company in West Germany as an engineer, ultimately becoming Vice President of the company. He continues to hold this position but is expected to relinquish it next May, continuing however to be an advisor to the President of Messerschmit.

He returned to Indonesia in 1974 to head the Advanced Technology and Aviation Division of PN Pertamina and in 1976 was installed as President Director of the PT Nurtanio aircraft manufacturing company in Bandung. During this time he has also acted as Advisor to President Soeharto on matters of advanced technology. The Advanced Technology and Aviation Division of PN Pertamina is now expected to be transformed into a special agency under his jurisdiction as Minister of Research and Technology. Dr. Habibie has very close relations with President Soeharto and as such is a very influential figure.

BRIEFING NOTE

Visit of Dr. B. J. Habibie, Indonesian Minister of State for Research and Technology

The immediate purpose of Dr. Habibie's visit to the United States is to sign an agreement between the Governments of Indonesia and the United States for cooperation in science and technology.

Dr. Habibie is also using the visit as part of a major push to establish a strong indigenous research effort in Indonesia. He is bringing with him a high level group of senior and eminent Indonesian academics. We understand that he will stress the need for the creation of centers of excellence for scientific and technological research in Indonesia in his belief that there will be an ultimate pay-off in terms of the development of appropriate indigenous technology. His delegation is divided into five basic groups covering basic human needs; development of resources and energy; industrialization and transfer of technology; socioeconomics; and defense and security. Arrangements are being made for meetings with representatives of the relevant departments in the Bank. The latter group dealing with defense and security will not be visiting the Bank.

Dr. Habibie is also Chairman of the Batam Island Development Authority and he may wish to discuss possible Bank involvement in development of this Island. Located across from Singapore, the Government is planning to develop an industrial/commercial complex. The project was originally conceived as a counter to Singapore, but Dr. Habibie has stressed that it is to be more of a cooperative venture with Singapore and not a competitive one (for example, power and water supplies are to be received from Singapore). It is expected that both high technology and labor intensive industries would be invited to establish themselves on Batam. It would also be used as an area for re-exporting products to other parts of Indonesia, either in unprocessed or semi-processed form. Lastly, tourism may also be promoted. The Minister's interest in this project is keen and he will be discussing prospects for the Island with American businessmen on this visit. The Government has not yet requested and Bank staff have not examined the Batam Island project and we are not familiar with the details; it would, therefore, be premature to make a judgement on the feasibility or appropriateness of Bank involvement.

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara
FROM: S.S. Kirmani, Acting RVP, AEN
SUBJECT: INDONESIA: Visit by Minister of State for Research and Technology, Dr. B.J. Habibie

DATE: November 28, 1978

1. As part of a two week trip to the United States, Minister Habibie will be visiting Washington the first week of December at the invitation of the United States State Department. His immediate purpose is to sign an agreement between his Government and the United States for cooperation in science and technology. However, in a major push to establish a strong indigenous research effort Minister Habibie is bringing with him a high level group of senior and eminent Indonesian academics. We understand that Minister Habibie will stress the need for the creation of centers of excellence for scientific and technological research in Indonesia in his belief that there will be an ultimate pay-off in terms of the development of appropriate indigenous technology. Given the basic thrust of Minister Habibie's mission, his delegation has strong defense representation.

2. Minister Habibie is a newcomer to the Cabinet. He is a close personal friend and associate of President Soeharto, and as such a very influential figure. He is extremely well regarded within government circles as a long-term planner and his effort to build his own "think tank" will inevitably strengthen his influence in this regard. His capabilities are demonstrated by his successful career in Messerschmitt (the German aircraft manufacturer) where he began as an engineer and finished as a Director, an achievement all that more remarkable when it is considered that he was a foreigner. Minister Habibie is also Chairman of an official autonomous body (BADAN) for the promotion and development of technology; and the Batam Island Development Authority. Regarding the latter he may wish to discuss Bank involvement in development of this island located across from Singapore on which the Government is planning to develop an industrial/commercial complex.

3. The Minister will be visiting the Bank on December 6 and arrangements are being made for meetings with the relevant departments. The meetings are being structured around the following areas of interest into which the delegation has been divided: (a) energy and energy resources; (b) basic needs for development; (c) industrialization; and (d) social science research, including economic research. We understand that the Defense and Security representatives in his party will not be visiting the Bank.

4. The Embassy has requested an appointment with you and I recommend that you meet with Minister Habibie, if convenient. If you can meet him we will prepare an appropriate brief.

cc: Mr. E. Stern (VPO)

REgan/RDStern:ms

OFFICE OF THE PRESIDENT

Meeting with Mr. Martono, Indonesian Junior Minister for Transmigration, April 9, 1979

Present: Messrs. McNamara, Martono, Afiff, Ambassador Ashari, Stern, Husain

The meeting was a courtesy call. Mr. Martono reported on the Government's ambitious transmigration program under REPELITA III. The Plan provided for 500,000 families to be moved over the next five years under programs of spontaneous and planned migration. The landless of Java were to become the small farmers of the new islands. The program was being designed to resolve the problems of both population pressure and increased food demand. It would entail villages based on food crops, tree crops, fishing and small-scale industries. Strengthening of organization and management of the program was crucial. A new team had been named under the new Government.

Mr. McNamara said that this was certainly a most ambitious plan. The Bank was willing to continue its support to the program provided that it was replicable and realistic. The Transmigration II project, presently under negotiation, was a major step forward.

CKW
April 13, 1979

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 30, 1979

FROM: S. Shahid Husain

SUBJECT: INDONESIA: Visit by Mr. Martono, Junior Minister for Transmigration

1. It is confirmed that Mr. Martono, Junior Minister of Transmigration, will be meeting with you and Mr. Stern at 6:45 p.m. on Monday, April 9, 1979. Mr. Martono is accompanying the negotiating team for the Transmigration II project. The appointment was requested on instructions from President Soeharto.

4/6
2. As you are aware, our dialogue with the Government on the issues related to the transmigration program has continued for some time. The high level of representation at the negotiations emphasizes the importance the Indonesian Government attaches to this program. The Indonesian transmigration program is unique in size and complexity, and Mr. Martono will be responsible for coordinating the activities of all the government agencies implementing this program. In that capacity, Mr. Martono will be an important point of contact for us, both for continuing our dialogue on the various measures the Government should take to improve the transmigration program and for intensifying Bank Group involvement in it. The meeting will also afford an opportunity to re-emphasize our support for the Indonesian transmigration program, and also to point out the need for and importance of effective coordination and organizational improvements to facilitate program and project implementation. For background, please see my Board presentation of January 4.

3. A short biography is attached.

Attachments

cc: Mr. E. Stern
Mr. M. Walden (AEP)

REgan/RStern:lym

CURRICULUM VITAE

MINISTER MARTONO

Born: Karanganyar, May 17, 1925

Education

- | | | |
|-----------|---|--|
| 1947-1950 | - | Faculty of Literature and Phylosophy, Gajah Mada University |
| 1951-1952 | - | Faculty of Literature and Phylosophy, Leiden University,
majoring in psychology |

Employment Record

- | | | |
|-----------|---|--|
| 1954-1960 | - | Head Division C, Bureau for Higher Education, Department of Education and Culture |
| 1960-1964 | - | Education Attache, Embassy of the Republic of Indonesia in Tokyo, Japan |
| 1964-1971 | - | Official of Department of Education and Culture, designated to Department of Information acting as Chairman of the Board for Film Classification |
| 1971-1978 | - | Member of Parliament of the Republic of Indonesia |
| 1978 | - | Appointed as Junior Minister for Transmigration Affairs, Development Cabinet III |

Organization Record

- | | | |
|-----------------|---|--|
| 1964-1971 | - | Executive Chairman of Central Office of Kosgoro (Mutual Cooperatives Organization) |
| 1973-1978 | - | Chairman of Central Council of Golkar (Functional Group) |
| 1973 to present | - | President Central Board of Indonesian Farmers Association |
| 1973 to present | - | Member Executive Committee of International Federation of Agriculture Producers |



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WBG ARCHIVES

May 23, 1979

MEMORANDUM FOR THE RECORD

From : Jean Baneth

Subject : Meeting with the Vice President,
Adam Malik - Tuesday, May 15, 1979

Present: Adam Malik, Professor Selo Sumardjan,
Mr. McNamara, Mr. S. Shahid Husain, Mr. W. Clark,
Mr. Koch-Weser and Mr. J. Baneth

6/13
Mr. McNamara said that looking back on the 11 years that have passed since his first visit, he was impressed by Indonesia's tremendous achievements. The next 10 years will, however, be more difficult. People have already been born, notwithstanding the success of the Family Planning program, they will be entering the labor force, and they face relatively limited opportunities for employment. He was extremely optimistic on future population policies but less so on employment policies.

The Vice President noted that people should see that outside Java their opportunities were better than in Java and once they see this, they would move out spontaneously. Mr McNamara said that those who have moved are generally pleased to have done so, as he found out when speaking to them in Baturaja, and there was evidence of additional spontaneous movement. The Vice President said that he would soon go to Bengkulu and see for himself the success of the transmigration movement, and spend a night among the transmigrants in order to be able to talk to them in a relaxed manner. It was essential to **provide** transmigrants with much better living opportunities than they had left behind. Kruschev's success in populating the virgin lands of the Soviet Union was in large part due to his offering double salaries to people who moved to Siberia. That was easy, but unfortunately Indonesia could not afford such inducement. Yet as higher incomes would draw people spontaneously to transmigration areas; this could perhaps be achieved by giving them more land to be developed as plantations, whose income they would share. He definitely thought that in order to be willing to move the people of Java must become much better off outside than at home. A real new hope must be attached to transmigration.

Mr. McNamara again noted that mostly the people seemed to be happy to have moved. However, the migrants from Dieng, who had left good houses and a good income behind, were clearly less happy than those who had been landless laborers in East Java. Also, because of administrative coordination problems, the Dieng people had no water yet. He also felt some disquiet about the relatively low level of family incomes which accrued to the people in the Pematang Panggang transmigration project, which he had also visited. If this was not to increase substantially, then it was probably too low in the long run and may also not justify the investment cost. He felt that a certain balance was needed between the need to give certain minimum incomes, with a potential to increase, and the need to limit the cost of transmigration. The Baturaja project cost about \$5,000 per family and this was certainly acceptable, much higher costs would probably be too expensive for a large-scale program.

The Vice President referred to the raised expectations of the young, who wanted to obtain results in a hurry. This was not only in the field of welfare, they also expected for instance, rapid success in the drive against corruption. It was possible and desirable to reduce the levels of corruption, but unfortunately, probably impossible to eliminate it completely. Mr. McNamara said he was pleased to hear the subject being discussed so openly in the course of his current visit. Yet, the problem was still a very large one. With one possible exception, Indonesia had the worst reputation in the world with regard to corruption. This hurt it both externally and internally. Corruption on a large scale was like a cancer eating away at society. The Vice President said that sometimes corruption was fostered from abroad. When there are tenders, the large foreign corporations involved in it sometimes tried to bribe those who decide the outcome in Indonesia.

Mr. McNamara said that if the Bank were to become involved in any corruption, we would have to stop lending to Indonesia. He hoped that he was not being too naive, but certainly the Bank tried very hard to remain pure. The Vice President then referred to recent problems with an ADB project in which there was pressure to accept certain suppliers or consultants proposed by the ADB. He had opposed this, and given instructions that Indonesia should give in to no pressure. After all, most aid was not gifts, these were Indonesia's monies which Indonesia had to repay.

Coming back to the same subject, Mr. McNamara again expressed the hope that Indonesia will continue to fight corruption. One lesson of history was that discontent was not necessarily biggest before the Government started to tackle a social problem, but often after programs have been initiated to tackle it, thus arousing expectations and impatience at the progress not being faster than it was possible. Thus from 1860 to 1960 there was little progress on the racial front in the United States. Yet the worst racial troubles came in 1968, after very substantial progress had been made in the Kennedy and Johnson presidencies.

Referring to the political situation, the Vice President noted that the problem of provincialism had been effectively overcome in Indonesia. There was now a renewed problem with religious fanatics, particularly after the Iranian events. There were some people who were attracted towards the pattern of the Iranian revolution although (responding to a question) he noted that the move of Pakistan towards "Islamic law", had generated no interest and no attraction in Indonesia. However, he and many others felt that any emulation of the Iranian pattern in Indonesia would be the end of the Republic. Indonesia had fought the fanatic Darul Islam movement for five years after Independence, notably in West Java. Those who stood behind the Republic were ready to fight again if necessary, although he hoped that no more such need would arise. In 1945, when discussing forthcoming Independence, and later, when discussing the 1945 Constitution, he and the others had met with representatives of the Muslim parties, and a compromise was worked out. Many had wanted no reference to religion in the Constitution, others had wanted an Islamic constitution. The compromise accepted by all was a reference to belief in God in the Constitution and in the Pancasila. This compromise could not be put into question. He personally, was optimistic that all fanaticism and extremism would be defused, but the dialogue needed to continue in order to do so.

Mr. McNamara then noted that he had been very impressed by the Banjar and Subak systems in Bali and wondered why no comparable development existed in Java. The Vice President replied that Bali was a very special situation. A semi-paradise, a world sufficient unto itself.

Coming to the situation of the world outside Indonesia, the Vice President said he was worried. In the Middle-East, while Israel and Egypt had now concluded an agreement and seemed set for further progress towards peace,

the tension between Egypt and the other Arab countries represented an increased danger. In Africa too, the various problems had only been solved to maybe 25 percent. In South East Asia, the giants were fighting. He hoped Indonesia could get the major powers not to be competing in this Region and to let Indonesia consolidate itself. He had talked quite openly to Pham Van Dong, whom he had known for 20 years. He said Indonesia was not against Viet-Nam, but wanted peace. Pham Van Dong said that, of course, Viet-Nam wanted peace too and would not interfere with its neighbors. He also said that Viet-Nam wanted to remain independent from the Soviet Union, yet a few weeks later, the fighting started in Cambodia and ultimately, led to the Vietnamese occupation of that Country. Indonesia's problem now, was how to convince Pham Van Dong not to depend too much on the Soviet Union. He had said that facing the problems of hunger, of employment, of reconstruction, only one door had been left open to him, that of the Soviet Union and that was why Viet-Nam had become so close to it.

Mr. McNamara noted he did not understand what Viet-Nam was doing and where it was going. Certainly the resources put into the war more than compensated for Russian help and diverted resources from the urgent problems of reconstruction and development. The Vice President repeated that what one needed was to talk openly about these problems to the Vietnamese and maybe one could convince them to become neutral.

Mr. McNamara asked how the Vice President explained Chinese support to Pol Pot. The Vice President replied that it was essentially explained by the Chinese opposition to the Soviets; they wanted to help their opponent. Sihanouk would certainly be a much better leader. Indonesia had proposed a return of Cambodia to neutrality in 1972. It was not then listened to, but maybe it will be possible to have Sihanouk return to Cambodia and form a neutral government later. Among the ASEAN countries, Thailand was most worried. It had earlier been worried both by Viet-Nam and by China, but now it was concentrating its worries on Viet-Nam. Yet the Vice President was afraid that the Thai rapprochement with China may invite Soviet counter pressure, and he was advising the Thai not to move too close to either of the superpowers. Indonesia also wanted to convince Viet-Nam that ASEAN was not its enemy. The Vietnamese had wanted them to recognize the new government in Cambodia but the Thai border was full of supporters of Pol Pot

and the ASEAN will not recognize the new Pnom Penh government until they consolidate their powers. Hanoi was now embroiled in the long enduring war in Cambodia and the Vice President was convinced that sooner or later, they will seek compromise to resolve their problems. They did not want to such a long war which would endanger development.

He asked Mr. McNamara whether the World Bank could help in this field. Mr. McNamara replied that the Bank was helping, it had made a 60 million dollar loan to Viet-Nam for irrigation project in the South and was preparing other projects. However, he was very much concerned that the war would now divert resources from development. Viet-Nam was wrong if it felt that it was not getting support from outside the Soviet Block. Before the Cambodian invasion, it had the support of many countries, including Japan, Germany, France, the Scandinavian countries, and of course, that of the World Bank, and the United States would also have slowly come around. Now the World Bank's problem was whether we can proceed with this project or new projects. He was concerned whether the Vietnamese will be able to absorb the loans, that is, provide the necessary counterpart effort in financial and manpower terms.

In a different field, the Vice President referred to the North-South dialogue. He felt that Manila was not a good forum, because even the countries of the South could not fully agree among themselves. The discussion would have to be conducted either according to regional groupings or, in subject-wise meetings. Then more concrete results could be achieved. Mr. McNamara thought that this may well be right. In any case, the South had not done its homework well, and had not been, therefore, able to participate actively in the important trade negotiations which had just been concluded.

In parting, the Vice President thanked Mr. McNamara for his visit. Mr. McNamara expressed once again his satisfaction he felt at having seen the great progress achieved by Indonesia in recent years.

*File
w/ Messcom
per R.M.*

JUN 19 1979

His Excellency
General Soeharto
The President of the Republic of Indonesia
Jakarta, Indonesia

Excellency:

I wish to thank you for your warm reception and for the excellent arrangements made by your Government for my recent visit to your country.

As I mentioned to you, I was impressed by the economic achievements of Indonesia in the past decade. I was equally impressed by the profound thought given by you yourself, Excellency, and by the members of your Government, to the major issues of economic policy and management your country will be facing during the next decade. We in the World Bank fully share the view of your Government that progress towards Indonesia's goals of equity and development will call for well-coordinated implementation of projects and programs and some hard decisions, particularly in the areas of industrial development and employment, food production and domestic resource mobilization.

I was very much encouraged to see the progress in population planning, particularly in Bali. The Indonesian population planning program is one of the most successful programs in the developing countries. But as you yourself mentioned, more needs to be done. The Bank has been associated with your program since its initiation and we look forward to being of further assistance in this area.

We share the view of your officials that, despite the recent modest decline in the population growth rate, providing sufficient employment opportunities both in the urban and the rural areas will continue to be a major challenge for the Government. Transmigration will make some contribution to relieving the pressure if the questions of program management and coordination of related activities are resolved as work progresses. Increasingly, Indonesia will have to depend upon the development of labor intensive industry - for the domestic market and for exports - to provide employment for the growing labor force. During my visit I discussed with

His Excellency General Soeharto

your ministers the need to continue, and possibly intensify, efforts aimed at removing constraints to industrial investments and at developing a detailed program for industrial financing and a consistent policy framework. I would further like to suggest that it will be particularly important to limit large capital intensive projects which provide very few employment opportunities so that more of Indonesia's national resources could be channelled towards labor intensive industries.

I had an opportunity to see the work being done to increase agriculture production. During the last ten years there has been a major increase in the production of rice, assisted by irrigation, fertilizer use and the Bimas program. I do know that programs and projects are afoot further to increase rice production. At the same time, we in the World Bank fully support your Government's objective to place a new emphasis on increasing the production of palawija crops. We do hope that your officials will be able to elaborate and implement a suitable program for increasing the production and consumption of crops such as cassava, corn, soy beans, etc. As Your Excellency is aware, agriculture has been a major area of cooperation between your Government and the World Bank, and I am confident that our association in this area will continue.

Your ministers are keenly aware of the need to increase the availability of domestic financial resource so that the momentum of your development effort would not suffer for lack of funds. In this regard, the recent increase in the domestic prices of oil products was timely and welcome. Oil revenues are now increasing less rapidly than in the earlier part of the present decade and action will be required to limit subsidies and increase revenues from taxes as well as from public enterprise.

While the basic effort for development has been Indonesia's and will remain so, I am confident that external funds will continue to reinforce your efforts. In this regard, I am glad to inform you that in the current fiscal year the Bank's Board has approved for Indonesia financing of \$830 million. This is an increase of \$325 million from last year. I am, however, concerned at the slow rate of utilization and disbursement of Bank funds. Your officials are aware of this and I understand that steps are being taken to accelerate the implementation of projects. Our ability to maintain the level of our assistance would depend not only on progress on issues I have mentioned above, but also on the implementation of projects financed by the Bank.

I was encouraged by your observations concerning the fight against corruption. The prevalence of corruption detracts from an otherwise

His Excellency General Soeharto

impressive record of development and, if left untackled, may seriously compromise the goals of equity, development and stability you have set for the next five years.

Excellency, my recent visit was the third one I have made to Indonesia since 1968. I have thus been privileged to witness the success wrought by the hard work of your compatriots, the effort of your Government and by your own dedication to development. I am confident that Indonesia will similarly overcome new obstacles and that in the course of the current Five-Year Plan period Indonesia will continue to progress towards equity, growth and stability. We in the World Bank are ready to continue to assist in this effort.

With best regards,

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

cc: Messrs. R. Stern (VPO)
S. Please (AEA)
Baneth (AEF)

JBaneth/SPlease/SHusain/PBottelier:lym

OFFICE MEMORANDUM
DECLASSIFIED

TO: Files

APR 01 2013

DATE: May 22, 1979

FROM: Jean Baneth

WBG ARCHIVES

CONFIDENTIALSUBJECT: Meeting in Central Bank on Tuesday May 15, 1979

Present : Minister of State for Environment and Development Supervision (Professor Emil Salim), Minister of Finance (Professor Ali Wardhana), Governor Rachmat Saleh.
From the World Bank: Mr. R. McNamara, Mr. W. Clark, Mr. S. Shahid Husain, Mr. C. Koch-Weser and Mr. J. Baneth.

Mr. McNamara started to summarize his findings by saying that there had, of course, been tremendous improvements in all fields in the past 10 years. He was happy and proud that the Bank had cooperated with Indonesia in its development. He saw no fundamental problems with the Bank's program. He wanted, however, to mention the need to accelerate disbursements because it would not be possible for the Bank to increase or even maintain its lending if disbursements of old loans did not accelerate. But this was a detail which could be resolved. Indonesia's fundamental problem was that of creating enough employment. The Family Planning program was exceptionally successful but it has started relatively late and for many years to come, the labor force would be increasing rapidly. As noted that morning by Professor Selo Sumardjan, people did perceive that they had had an improved standard of living in the past decade, but they were expecting continued improvement and were not fully confident that these would be forthcoming. This depended essentially on employment creation. From his conversation with the Minister of Industry, Mr. McNamara did not get the impression that the Government understood yet the need for devising programs offering off-farm employment, essentially in industry, let alone that such programs have been initiated in an effective manner. Another main problem was that of secondary food crops. The target of 5 percent increase seemed very ambitious and, frankly, unlikely to be achieved. Food self-sufficiency in the long run was a reasonable aim, but certainly not a realistic target for the current Plan period. It was more reasonable to plan for imports to continue for quite some time and to arrange for exports to finance such imports, while at the same time, having a realistic program to increase the production of secondary foods as fast as possible.

The need to finance food imports and other needs, required effective export promotion programs. Mr. McNamara expressed admiration for the political courage reflected in the devaluation but other programs were also needed. While he had had no meetings with private business and while he would not pretend to have become an instant expert in Indonesia, he did not have the sense of a vital and dynamic private sector striving to develop its production and its exports. Programs were needed to overcome the obstacles to such dynamism, and to stimulate better development. Finally, Mr. McNamara noted that there was a major need for continued resource mobilization efforts to substitute for the flagging growth of petroleum revenues. In this context, while he well understood the political obstacles to reducing the petroleum subsidy, he could not but note that this would still absorb around 700 million dollars in the current year.

Asked for his opinion on the transmigration program, Mr. McNamara noted that that program was a much needed part of overall development strategy. He did not think that there was any chance at all of meeting the five-year target, but this did not necessarily matter very much. Those projects he had seen and heard about were reasonably sound. Baturaja, for instance, while about two years delayed, was proceeding in a healthy manner. All the transmigrants expressed satisfaction with the improvement they have experienced. Further efforts were needed to accelerate the program and to put it on a more sustainable basis. Mr. McNamara had no doubt that the current target would not be met, but neither did he have any doubt that in ten years, while transmigration would not provide a solution to any of Indonesia's problems, it would be a strong element of the overall solution. Mr. McNamara noted that improved administrative coordination was needed. This was well illustrated by the problems of water supply met by the transmigrants who had been moved after the Dieng catastrophe. They had no water, essentially because the only way to provide it was to build tanks; this needed heavy equipment and the various administrative approvals needed had been pending for over a year now, and there was great danger that the construction would not be finished even during the current dry season.

Returning to the problem of employment and the need for programs capable of generating demand for labor, he noted that this was a world-wide problem in developing countries but he had felt that the discussion with the Minister of Industry showed an exceptionally high level of insensitivity. Not only was employment barely mentioned in the whole discussion, but the large projects discussed and promoted by the Minister did not even have a high rate of return. Governor Rachmat Saleh noted that it was the Government's policy to rely on private foreign investment for these projects, and asked whether Mr. McNamara would object to them. Mr. McNamara said, that if these were well negotiated favourable deals with foreign investors, he would not have similar qualms. However, he felt that foreign investment itself had not been sufficiently harnessed to the pursuit of what should be the Government's major aims, i.e. export promotion and employment creation. Mr. McNamara was puzzled why the private sector had not developed further, given the advantages offered by Indonesia in terms of a well educated labor force and of political stability. To a question by Minister Emil Salim as to whether the World Bank could provide financing to industrial development with high local content, Mr. McNamara replied that that was precisely the only type of industrial development the World Bank was interested in financing, particularly, if there is high local labor content. The World Bank would not be financing low local content, highly capital-intensive developments. Mr. Shahid Husain noted that one problem for the private sector's development was the inadequacy of financial institutions. These needed to be diversified. He was concerned that the private financial institutions were not yet eligible for foreign borrowing. He hoped that there would be work by the Government and the Bank in common on this problem, as well as on the problems of industrial policies and administrative procedures affecting the industrial sector. Governor Rachmat Saleh noted that Bank Indonesia had indeed started to boost the technical competence and capital base of the regional development banks, but that a long-term effort was required, with several years of training; no miracle should be expected in this field.

Minister Emil Salim then referred to the problem of using foreign aid funds, and to the so-called leakages of development funds. Mr. McNamara replied that with one possible exception, Indonesia had the worst reputation in the world concerning corruption. He was well aware of the campaign against corruption now being conducted, but he must say that its effectiveness has not yet been demonstrated. Yet, he was encouraged by the fact that in this trip many members of the Government themselves raised the problem. Five years ago, the subject had been taboo. He also noted that Indonesia had less visible inequality of income than in many other countries, but in the long run, corruption would create tremendous negative phenomena.

Mr. McNamara then asked what the Bank should be doing which it is not yet doing. Governor Rachmat Saleh replied that the most critical activity is that of preparation, what he called packaging of projects. Help was also needed to help the private sector, and to assist the Government in devising programs to stimulate it. The banking sector needed help in developing proper development banking practices both in the bank themselves and in potential borrowers. Another related question was how the poor could be helped to help themselves? How can one formulate and implement credit and other programs to assist and mobilize them? He noted that in the mini credits "canda kulak" as hitherto implemented, a very successful means was found to substitute for money lenders who traditionally finance consumption activities. This relieved the burden on the poor, but did not really help them to increase levels of production. There also was the program of the small credit "KIK" scheme with which the World Bank helped. They have not yet experienced demonstrable success in permitting small-scale industrial development.

The meeting broke up and the participants left for the call on President Soeharto.

JBaneth:amt:eg

OFFICE MEMORANDUM
DECLASSIFIED

TO: Files

APR 01 2013

DATE: May 22, 1979

FROM: Jean Baneth

WBG ARCHIVES

CONFIDENTIALSUBJECT: Meeting with President Soeharto - May 15, 1979

Present: President Soeharto, the Interpreter, The New Head of the Palace Protocol (Mr. Basuki Slamet), Minister Ali Wardhana, Governor Rachmat Saleh.
From the World Bank: Mr. McNamara, Mr. W. Clark, Mr. S. Shahid Husain, Mr. C. Koch-Weser and Mr. J. Baneth

President Soeharto welcomed Mr. McNamara, expressed admiration for and the hope that his tight itinerary allowed him to get a good impression of the progress made by the country, and of the Government's efforts further to accelerate this progress. Mr. McNamara noted that, in the course of his first visit, over ten years ago, there were indeed heavy problems in the country and not much progress to look at. Seeing what has been accomplished since then should make the Government proud of having done so well, and certainly makes the World Bank proud to have been associated with these developments.

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President Soeharto thanked Mr. McNamara for these comments. He said that whatever had been accomplished was due to the hard work of the Government as a whole and of the people. However, this progress was not yet up to the people's expectation and they were still looking forward to further progress, just as the country was still looking forward to receiving further aid from outside, in particular from the Bank. The most important such aid is further exchange of views with the Bank. He appreciated that leaders, such as Mr. McNamara had, from time to time, to see for themselves to what use aid monies had been put in order to fulfill their responsibility towards those who entrusted them with these funds. He hoped that Mr. McNamara would observe what had been done with these funds and would give a good account of Indonesia's use of these monies to the IGGI. He also hoped this would help Indonesia get additional aid, which was still needed. The President was aware that there were still many shortcomings in Indonesia. The observations of Mr. McNamara would also be very important in guiding the Government, and telling it whether it was following a correct strategy or not. This was particularly important right now, in the first year of the Third Plan, which played a crucial role in Indonesia's long-term development strategy. The President felt that after five or six Plan periods, Indonesia should indeed have a strong economic base for further growth. Naturally, the Third Plan was built on the achievements of the First and Second, and it provided the transition between those Plans of reconstruction and the later Plans of gradual transition towards a more developed economy.

In order to ensure continuity, the Third Plan also fixes for itself the aims to achieve stability, growth and equity. These three main aims were of course inter-related. Without stability there could be no growth, and while equity was the final and most important aim, it, too, was not possible without growth, which in turn, was impossible without stability. People expected equitable distribution of the benefits of

growth and the Plan had defined the eight ways of equity, in particular equitable distribution of work opportunities, of business opportunities, regional equity, equity for women and minorities and equitable access to justice.

The President noted that employment was a main requirement. The young people expect employment, but Indonesia had to face a population explosion despite the success of the family planning program. That program started late, and it has results only after 10 or 15 years. Therefore, new workers are, and will long continue to enter the labor force in huge numbers. At present, Indonesia aims at developing agriculture and industry and to provide priority to labor-intensive investments. However, neither should it lag behind in technology, even though it should select between projects otherwise equally attractive with the aim of maximising employment.

In densely populated Java where there was less than one-half hectare of land per farmer, the next generation would have even less, and this problem should be resolved through transmigration. In the third Five-Year Plan a target of 500,000 families to be transmigrated had been fixed. While this is a very large target, it would still affect only a small part of the population. The transmigration should also relieve the pressure on demand for jobs. The President asked what Mr. McNamara thought what else could be done in Indonesia to further the growth of equitable development.

Mr. McNamara noted that the most important finding he had was the enormous advance of the past 11 years. This was not only a source of legitimate pride for the people and its leaders, it also laid solid foundations for the future development. Yet, he noted that the next 10 years would be much more difficult. He fully shared the emphasis on the objective of employment. While he recognized the great potential of transmigration, millions of jobs must be created on Java itself. He found that there was not yet enough emphasis on labor-intensive off-farm employment. There was a major urgent need for concrete plans and policies to develop labor-intensive off-farm production. There was also need for thorough understanding throughout the Government that such goals needed to be pursued actively. Mr. McNamara was much impressed by the continued emphasis on continued growth of food production. In the past, policies to increase rice production were very successful, with a growth rate of over 3-1/2 percent per annum, but others were not successful. He fully agreed with the emphasis in the new Plan for further expanding the production of secondary food crops. However, he noted that self-sufficiency may not yet be realized during the Plan period.

Mr. McNamara noted that he did not yet see enough evidence of private activity to create jobs, strengthen investments and promote exports. The Government needed to devise more effective programs to stimulate such private activity, particularly in the field of industrial exports.

It was also necessary to continue further increasing domestic revenues. He fully understood the political difficulty of raising fuel prices for instance, and the courage required to go as far as the Government had already gone. However, the subsidies continue to involve a heavy cost and he hoped that it would be possible to eliminate them in the course of the Third Plan period.

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It was also necessary to maintain the emphasis on reducing corruption. Outside Indonesia, this was much talked about and the world had the impression, rightly or wrongly, that it was greater in Indonesia than in any but perhaps one other country. This reduced external support for Indonesia's development. More importantly, it was also bound to reduce internal support to the Government's effort. It was like a cancer eating away at the society.

Nevertheless, despite these problems, Mr. McNamara will be leaving Indonesia with a great feeling of confidence. He was particularly impressed by the emphasis on equity in the Plan and in Government policies, which was fundamental. It was demonstrated every year that great political problems befell governments which did not properly emphasise equity. This is not the case with Indonesia.

The World Bank was here only with one aim, to help Indonesia and he hoped that the President would tell us when we are doing something which was not good or not doing enough of what was needed. The President again thanked Mr. McNamara. He said that the Government wanted continuity with the Family Planning program, particularly in Java. Despite the early skepticism, this was a good program. It was also determined to increase food production, in particular it would intensify the production process wherever there was still room for higher yields. For instance, there was still only relatively limited fertilizer use in Indonesia. There was no reason now to be prudent on fertilizer, there was enough available in Indonesia, thanks notably to the World Bank assistance to PUSRI projects. Now there was a question of providing enough guidance and attention to intensify food production, also to educate people in order to participate in cooperatives. At the same time, the Government was also extending food cultivation through new irrigation, creation of new sawahs, and by transmigration. Such intensification programs could later be followed by intensification, to raise their yields.

The President recognized the importance of the private sector, which was invited to participate actively in development. Unfortunately, participation was in large part limited to those who already had access to capital, who were already strong. Some of them had become very successful, but this by itself created problems, as others who had not so participated in development, resented and disliked the newly rich. Questions were asked whether the development meant unlimited expansions for some economically strong groups to the exclusion of others. Probably because of the long period of foreign domination, there were not enough truly domestic Indonesian entrepreneurs. Indonesians had only become civil servants. The Government had to prepare a mental transformation of the people and also to encourage cooperatives and naturally, also other programs, such as credit programs, particularly for small-scale industry, which was the most labor-intensive. Training programs would also be provided to create new skills, strengthen the small enterprises and allow them to absorb more large part of the labor force. At the same time, though, while it was necessary to expand credit programs, some patience was also needed. These programs should not be expanded so fast as to stimulate inflation. The Government was also trying to open up new opportunities for the private sector, for instance, by encouraging the timber concessionaires to develop processing industries and also to establish homes on land opened up by the timber concessions.

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The President again thanked Mr. McNamara for his visit. He expressed the hope that Mr. McNamara felt that the aid provided by the World Bank had been well used. Mr. McNamara responded that indeed, it had, and that the IBRD was looking forward to providing further increased help to Indonesia, although in order for it to be able to do so, the disbursement of past aid must be accelerated.

JBaneth:amt

OFFICE MEMORANDUM

DECLASSIFIED

APR 01 2013

WBG ARCHIVES

TO: Files

DATE: May 21, 1979

FROM: Jean Baneth

SUBJECT: Meeting in Bank Indonesia - May 11, 1979CONFIDENTIAL

Present: Minister of Industry (Ir. Soehoed); Minister for Research and Technology (Professor Ir. Habibie and Minister for Mines and Energy (Professor Subroto).
From the World Bank: Mr. R. McNamara, Mr. S. Shahid Husain, Mr. W. Clark, Mr. C. Koch-Weser and Mr. Jean Baneth.

Minister Soehoed started the meeting by stating that in the field of industry the Government had two aims: to provide growth and to bring benefits, including employment to the people. The implementation of these aims must be split up. Big industrial projects would be promoted in order to bring growth, and small-scale industry in order to bring benefits to the people.

The Minister was somewhat vague on figures. He indicated that in small-scale industry 1.2 million jobs would be created over the 5-year period at a cost of \$500-\$1,000 per job. About 600,000 jobs are to be created in medium-scale industry with about \$5,000-\$15,000 investment per job, while 100,000 jobs would be created in large-scale industry at the cost of about \$100,000-\$250,000 per job. Mr. McNamara pointed out that even assuming the lower figure of \$100,000 per job, 100,000 such jobs would be costing \$10 billion, which is more than total industrial investment in the Plan period. Referring to these investments, however, the Minister said that they amounted to about \$5-6 billion over the Plan period. Such large projects would then allow vertical linkups with medium and small-scale industry, and development of the latter through such linkups. As examples of large-scale projects contemplated, the Minister gave first that of the integrated steel mill, specifically cold flat-rolling mill, with a capacity of about 0.5 million ton. The project he said, would have a rate of return of about 15 percent, although he specified that actually the rate of return could be controlled through price policy. A hot roll mill for sheets and a slab mill have already been negotiated and are under construction. Secondly, there would be a project for alumina production, although whether or not this will actually go ahead, will depend on alumina prices. Two pulp mills were also planned, one for short and one for long fibre. On the first one, which would be in Kalimantan, the Minister stated that the industrial project itself seemed quite remunerative but in order to proceed it would require infrastructure investment to be financed through soft loans, because commercial funds were not suitable for it. There were also 2 petro-chemical projects contemplated for olefins and aromatics and possibly also a project for producing caprolactum with the surplus ammonia available from the fertilizer plants. Finally, Indonesia may also start the production of metal alloys.

Mr. McNamara asked about export intentions and present production. The Minister replied that as for the present, there was not very much such production and really not much was contemplated. The Minister

was thinking of secondary industries, meaning textiles, appliances and garments. The existing plants were mostly too small and uneconomic. In order to boost their size, the Minister was thinking of limiting new entries and allowing expansion of existing plants, particularly in order to export. Another requirement was standardization. To Mr. McNamara's questions regarding plans and programs for small-scale industry, the Minister responded that there were plans to develop them, particularly as integrated collaborators with large-scale mills in the production of some sophisticated products and also some badly demanded appliances, such as handpumps, and for handicrafts. They need help, in particular in design, leasing and also credit to overcome their liquidity and financial problems. Minister Habibie described his role as being the promoter of science and technology, not for their own sake but for development. Science had to fill the basic needs of the people. Industry had to become labor-intensive, but labor-intensive did not necessarily mean unsophisticated. Dr. Habibie intended to concentrate on evolving technical cooperation agreements with three main centres, the United States, Western Europe and Japan. As an example of the type of cooperation he was aiming at, he mentioned the visit of the Dutch Minister of Economy with whom he would be discussing cooperation for the production of the F27 aircraft. This had many labor-intensive operations, and Indonesia could be producing the aircrafts and buying more sophisticated parts, paying for them by producing and furnishing the Dutch firm with the less sophisticated parts. Nurtanio, the aircraft manufacturing corporation, now had 2,000 employees even though it started only two years ago and it will soon grow to 4,000. It is now producing two aircrafts per month, and will soon be producing four Casa high-wing planes per month. It is also producing helicopters, for instance, for the oil companies. Similar agreements were sought with Dutch or other companies for the production and repair of ships. Dr. Habibie also was responsible for upgrading the Surabaya shipyards which used to employ 20,000 people before the war, but employ barely 3,000 in very bad conditions today. The President had also asked him to look into food production technologies and he is now looking into the production of single cell protein, no longer from petroleum directly but from yeast fed with ammonia. This could produce 50 percent protein at a price one-fourth of that of soya bean and less than 10 percent of that of meat. He was also examining problems of agricultural mechanization, in order to increase production in the provinces outside Java. Under his responsibility, the National Academy of Sciences was cooperating with IRRI. He was also looking at energy production, notably, geothermal energy of which there were 600 megawatts of known possibilities and perhaps up to 4,000 megawatts of potential. He was also responsible for the development of Batam Island, for which his idea was to make it develop symbiotically with Singapore, relying essentially on private investment. He mentioned that the present population of Batam was 16,000.

Professor Subroto spoke first of energy. At present, Indonesia was relying on oil for up to 90 percent of its commercial energy consumption. This was much too high, and it was intended to reduce this to 80 percent by the end of the REPELITA. This was to be done by intensified exploitation of other sources, diversification and substitution, and also by energy conservation. One of the questions in the Minister's mind was whether the incentives granted to oil companies were enough for the intensive exploration of the newer, more difficult offshore fields, and this question was

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kept under review. In the current year, approximately 300 million had been invested in oil exploration, he said, and substantial interest had been shown in the tenders. There has also been great interest in tenders for coal exploration. There were two main fields - one in South Sumatra, the other one in East Kalimantan. The latter had reserves of perhaps 15 billion tons. Eight blocks of this have been opened up for exploration. The Ombilin mine was also promising, with high quality coal. Gas resources were also abundant but their use was now limited and should be encouraged. The first development priority will be for East Java fields, second in Central Java and the third in North-West Java. At present, total energy consumption in Indonesia was 22 million tons of coal equivalent. This was to double during the Plan period. The exploitation of geothermal energy will soon start with about 30 megawatt of experimental production for 1981, to be produced with help from New Zealand and Italy. As earlier mentioned, conservation was also an important Government aim. In this connection Mr. McNamara asked the impact of price changes on consumption. The Minister said that the recent changes did not seem to have produced an overall reduction in consumption, although they did, at least temporarily, make for a shift towards kerosene whose price did not at first increase.

Kerosene accounted for about 40 percent of domestic oil consumption. In addition to what was being produced domestically, some was imported from Kuwait under long-term agreements at the OPEC price. Additional quantities were refined for Indonesia in Singapore. To increase kerosene production, Indonesia was aiming to build a hydrocracker.

Electric power production was to double in five years. Indonesia was inviting foreign private interests to help in three ways, either in both production and distribution in isolated areas, or only as producers to sell to PLN for distribution and finally, in some areas, to sell the surplus power of captive sources. In the power field, another big project was the planned inter-connection for Java. Indonesia was also intending to start construction of 600 megawatt nuclear power station in Central Java.

In the field of non-fuel minerals there has not been much movement, largely because of the current market. However, it was hoped that soon the nickel project at Gag Island would be developed in order to become productive in the early eighties when the market was expected to recover.

JBaneth:amt

OFFICE MEMORANDUM

TO: Files

DATE : May 19, 1979

FROM: Jean Baneth

DECLASSIFIED

SUBJECT: Meeting with General Surono - Coordinating
Minister for Social Welfare - May 11, 1979CONFIDENTIAL

APR 01 2013

WBG ARCHIVES

Present: Coordinating Minister for Social Welfare (General Surono), The Junior Minister for Women's Affairs (Mrs. Lasijah Soetanto S.H.), The Secretary to the Coordinating Minister for Social Welfare (Mr. Satibi Darwis), The Third Assistant to the Coordinating Minister for Social Welfare (Mr. Hidayat Mukmin), Representatives of other Ministries: Ministry of Education (Professor Dr. Setijadi), Ministry of Health (Dr. R. Bahrawi Wongsokusumo, MPH), Dr. Subekti - Director General of Community Health; Dr. Sugeng Supari and Dr. Henri Pardoko - BKKBN, Ministry of Social Affairs - Head of the Planning Bureau (Mr. Drajat), and Ministry for Religious Affairs - Director General for Islamic Affairs (Drs. H. Kafrawi MA).
From the World Bank: Mr. McNamara, Mr. W. Clark, Mr. S. Shahid Husain, Mr. C. Koch-Weser and Mr. J. Baneth.

The Minister first invited Mrs. Soetanto to give a description of activities in women's affairs. The Minister explained that she herself coordinated all programs dealing with the promotion of women in all ministries or departments. Her aim was to enhance the role of women in development. Thus, she supervised the content of non-formal education programs, to stress the role of women, she cooperated with the family planning programs, also to extend the role of women. Forty-five thousand women's societies in all the villages were cooperating with the family planning program. There were also special women's education programs, for instance, to explain to them better hygiene, better nutrition practices, etc. Women's organizations had also played an important role in reaffirming the legal protection of women, notably through the implementation of the marriage law.

Dr. Sugeng, the Representative of the family planning organization, next explained that program. Before the inception of the program, the average gross fertility ratio was 5.2. At present, it is estimated at about 3.8. This reduction has been achieved by the creation of a family planning health centre in each sub-district, at least in Java. Now the program had already started to expand outside Java, although there was also a need further to reinforce it in Java too. Furthermore, strong community institutions had been developed, which are all supportive of the program. The family planning program's target had been to reduce total fertility to 2.6 by the year 2000, but in view of the success and of the urgency of the problem, the target date for that fertility had advanced to the year 1990. Ultimately, it was the aim to reach net reproduction rate of 1.

The current estimate was that approximately 37 percent of eligible couples were practising family planning. By 1990 this rate should reach 75 percent for Indonesia as a whole. In the current Five-Year Plan, it was intended to recruit 13,000,000 new acceptors. At present, while in East Java approximately fifty percent of eligible couples were already

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family planning acceptors, and in Bali 46 percent, for the rest of Indonesia or more precisely, outside Java, the acceptor rate was at present only about 10 percent.

Dr. Soebekti then explained the programs and achievements of health services. In answer to a question from Mr. McNamara about infant mortality, he said this was at present somewhat above 100 per 1,000 live births. As Mr. McNamara remarked that this was still very high, Dr. Soebekti replied that not very long ago the rate had been 150. The Government planned further to extend primary health care to lower levels, and to increase active mass participation. In this, the village women's organization had to play a particularly active role, notably in increasingly convincing the people to recur to modern health services and also to improving hygiene and nutrition practices. The health worker, in addition to his primary health function, also helps with income raising activities, which, after all, are part of better health. He instructs the villagers on vegetable raising and similar activities, for instance. This is also related to the nutritional improvement program. At present, there are 4,300 primary health centres, each with 2 sub-centres. 60 percent of the centres now have doctors and this ratio would be raised to 100 percent by the end of the Third Pelita. There were also 4,000 Maternal and Child Health Centres and 2,000 outpatient clinics with male nurses.

Concerning the education program, Professor Setijadi said that the aim was to get at universal primary education by the end of the Pelita. At present, the ratio is 85 percent gross (i.e. including overaged children in primary schools). Raising school attendance from 85-100 percent was going to be very difficult, because one now had to reach populations living in isolated areas and the very poor. A particular problem concerned the handicapped.

Beyond extending primary education to all school children, the Government also wanted to reach the total population and to eradicate illiteracy. In the first stage, illiteracy just meant the traditional concept of reading, but now this has been extended to include the basic knowledge of the Indonesian language and also some basic income-earning skills. Above grade four, Bahasa Indonesia was now the universal language of instruction. However, in universities, although instruction was in Indonesian, most of the books used were still in English. Adults were to be reached through the mass education programs (PENMAS), which were assisted by the World Bank.

Although it was much in advance in basic literacy and primary education, Indonesia now also needed much to reinforce vocational and technical teaching, and programs have been started. Concerning mass education, the main program was to train cadres of organizers in learning of basic skills, and this is what the World Bank was assisting. In addition, non-degree programs were also started in the universities. Furthermore, for the teaching of higher skills, the Government was now developing poly-techniques also with assistance from the World Bank.

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Concerning religion, Drs. Kafrawi said that of Indonesia's population, about 125 million were Muslims, 3 million Catholics, 5 million Protestants, 2 million Balinese Hindus and Budhists and about 2 million followers of various indigenous religion. The Minister of Religion was not only concerned with formal religion but also with instruction of family life, the maintenance of religious buildings, religious education, the supervision and issuance of guidance to preachers and also the implementation of laws governing family life, in particular marriage and divorce. It also organized the Haj pilgrimage. There were many institutes of Islamic education which were under the purview of the Ministry. They included the Madrasahs, schools of religious teaching which also gave lay education, and the pesantrens which were more properly centres of religious thought. The share of general education was increasing in the Madrasahs. A few years ago, it only took up about 30 percent of the teaching time, and at present about 70 percent. Vocational training was now also being introduced into the religious schools, including the pesantrens, as many of the people trained there would then return to their villages to become traditional community leaders and the vocational training they receive would help them help in the development of their areas of origin.

JBaneth:amt

OFFICE MEMORANDUM

JUN 10 1979

TO: Files

DATE: May 18, 1979

FROM: M. Altaf Hussain

SUBJECT: Continuation of Meetings in Bank Indonesia
May 11, 1979

CONFIDENTIAL

DECLASSIFIED

APR 01 2013

WBG ARCHIVES

Present: Minister of Finance (Professor Ali Wardhana), Governor Rachmat Saleh, Minister of Trade and Cooperatives (Radius Prawiro), Minister of State for Administrative Reform (Dr. J.B. Sumarlin), Minister of Public Works (Dr. Ir. Purnomosidi), later joined by: Minister of Agriculture (Professor Ir. Soedarsono Hadisapoetra), Minister of Manpower and Transmigration (Professor Drs. Harun Alrasjid Zain) and Junior Minister for Transmigration (Martono). From the World Bank: Mr. R. McNamara, Mr. W. Clark, Mr. S. Shahid Husain, Mr. C. Koch-Weser, Mr. J. Baneth, and Mr. M. Altaf Hussain

Mr. McNamara stated that Indonesia was facing three main problems. Those of food production, of the creation of enough employment and of financing development. The first response was provided by Minister Sumarlin. Speaking on agriculture, he said that the Plan foresaw two ways of expanding this production, through intensification and through extensification. Intensification meant essentially intensification of irrigation by providing tertiary and field channel development to a smaller and smaller scale, and bringing water increasingly closer to the farmers, by multiplication and distribution of better seeds, by improvement of credit, etc. Extensification meant extension of irrigation to areas not yet irrigated and there were many such projects, notably in Sumatra and Sulawesi, and also opening up of new lands through transmigration and through nucleus estate development.

Despite the success expected from these programs, and the hope to achieve target growth rates of production of 4 percent for rice and of 5 percent for non-rice foodcrops, the Government was aware that agriculture and the rural sector could not absorb all the additional labor force. Hence the need also for industrial development to absorb labor. The Government was stressing in particular, the need to reserve budget resources for labor-intensive, generally small-scale industry. It was its view that large-scale industry should be able to develop without Government capital and without public funds, and particularly through joint ventures which would find financing abroad without Government guarantees. To Mr. McNamara's question as to whether planned growth of industry of about 11 percent would be truly sufficient, the Minister replied that this was simply a prudent minimum and the Government would strive to achieve a higher rate.

Mr. McNamara also asked about the policies which would lead to such industrial growth. The Minister replied that fiscal policies had already been improved, notably by reducing the rates and granting preferential treatment to those who used public auditors; this should reduce the uncertainty of their taxes which inhibit private investment. An effort was also being made to simplify licensing procedures. As for the promotion of small-scale industry, the Government was now extending preferences to small industry, notably in Government procurement. Small contracts would

May 18, 1979

be exclusively reserved to small-scale industry, while in the middle range they would receive a preference and only large contracts would be fully open to competitive bidding. The Government also wanted to spread industrial development outside Java, and was extending various incentives and preferences to industries investing there.

Mr. McNamara asked about manufacturing production for export. Most of the response was provided by Minister Radius Prawiro. He said that the devaluation was intended to stimulate exports and indeed did do so. Since January, exports had been rising. However, to some extent this also involved negative effects, as this rapid increase in exports led to a rise in domestic prices. For that reason, it was necessary to restrict some exports by quotas. Export taxes were also imposed on certain raw materials. Such restrictions and export taxes could also be used as a tool to help develop domestic industry, by encouraging foreign purchasers to buy processed rather than raw materials. This technique was already used for hides and skins, and will be increasingly used to promote the development of wood processing industries.

Mr. McNamara noted that it was absolutely essential to achieve 20 percent growth rate of manufacturing exports, which the Minister said also to be the Government's target. The Minister responded that a major improvement of infrastructure was needed to achieve this, particularly of harbors, roads and shipping. Mr. Shahid Husain remarked that to promote industrial development, it was highly desirable completely to eliminate all licences and other restrictions. Minister Ali Wardhana said that indeed incentives were probably not the issue. By and large, there was general agreement that Indonesia provided enough of them in a formal sense. The main problem were those of administration and other bottlenecks, particularly the Customs. The Government was trying very hard to make all such processes more efficient. Concluding the discussion, Mr. McNamara noted that industrial development, in particular the development of labor-intensive manufacturing exports, was essential to overcome the problem of employment. He also invited the Government to examine why the private sector has remained relatively so weak in Indonesia, and indicated that the World Bank was prepared to assist such an examination.

The conversation then shifted to the subject of agriculture. Mr. McNamara noted that in the past, the development of rice production was reasonably satisfactory, but that other foodcrops had grown by no more than 1 to 1.5 percent. Minister Soedarsono stated that for the next Plan period, the aim was to achieve self-sufficiency in food production. In order to do so, rice production would have to be growing by 4 percent per annum, while through diversification of consumption the growth in rice consumption will be limited to 3.5 percent. (N.B. In fact, those two growth rates would reduce the gap between production and consumption by only slightly more than half-a-million tons). The production growth of 4 percent will be obtained through annual expansion of 2 percent in area and about 2 percent in yield. Of the additional areas to be brought under wet paddy, about 500,000 ha would be in Java, and about 1 million ha outside Java. Already in the current year, approximately 400,000 ha of new rice fields would be brought under irrigation.

For secondary crops, the planned growth was of 5 percent per annum. For cassava, the main problem was that of ensuring a stable remunerative price. Improvements were intended by favoring the creation of many small processing factories. Similarly, corn required better support prices, and this in turn, needed better storage facilities, particularly in rural areas. Regarding cassava, Minister Radius added, that in the current year its price was up because Thailand had suffered a bad crop and this has already stimulated demands for Indonesian cassava. However, to respond to this potential required better infrastructure.

Mr. McNamara asked what the Government's plans were regarding research. The Minister of Agriculture responded that the main problem was the "wereng" insect. The main task for research was to develop insect resistant varieties. Unfortunately, the present varieties, which are resistant to biotype two of the wereng, did not have a good taste. At present, a major effort was made to develop better tasting, insect-resistant varieties. Mr. McNamara again stressed the importance of research, including research into insect resistant varieties since 1972.

Ministers Harun Zain and Purnomosidi briefed Mr. McNamara on the transmigration program. They said that a large scale program was necessary for increasing production, providing employment and utilization of national agricultural resources in the outer islands for local consumption of food and export of other crops. They stated that for the program to be enlarged, the cost has to be kept low and therefore, their plans provide for starting from substance levels and leading to higher incomes and better lives to the transmigrants.

Mr. McNamara enquired how realistic was the target of 500,000 families to be moved within current Repelita. The ministers responded that that was the target but may not be fully reached.

Mr. McNamara asked about the arrangements that had been made for meeting that target.

Mr. Purnomosidi, through an elaborate description, aided by charts and graphs indicated that through macro level studies already made land areas for about 20 million families have been identified and added that even with 50% margin of accuracy, 10 million families can be transmigrated.

Mr. McNamara asked how would they achieve their current year target which would be twice the actual of the last year and particularly asked how the manpower needs for project execution and for support to production would be met. Mr. Sudarsono joined the other two ministers in explaining their program for training and redeployment of existing staff. However, they did appreciate that there will be constraints of manpower and organization in the early years but the streamlining of responsibilities through Presidential Decree No.26 of 1978 would help resolve many of the existing organizational weaknesses.

JBaneth/MAHussain:ds

File: Mr. McNamara

OFFICE MEMORANDUM

DECLASSIFIED

APR 01 2013

DATE : May 18, 1979

TO: Files

FROM: Jean Baneth

WBG ARCHIVES

SUBJECT: Meeting in Bank Indonesia - May 11, 1979CONFIDENTIAL

Present: Minister of Finance (Professor Ali Wardhana), Governor Rachmat Saleh, Minister of Trade and Cooperatives (Radius Prawiro), Minister of State for Administrative Reform (Dr. J.B. Sumarlin), Minister of Public Works (Dr. Ir. Purnomosidi), later joined by: Minister of Agriculture (Professor Ir. Soedarsono Hadisapoetra), Minister of Manpower and Transmigration (Professor Drs. Harun Alrasjid Zain) and Junior Minister for Transmigration (Martono). From the World Bank: Mr. R. McNamara, Mr. W. Clark, Mr. S. Shahid Husain, Mr. C. Koch-Weser and Mr. J. Baneth

Mr. McNamara stated that Indonesia was facing three main problems. Those of food production, of the creation of enough employment and of financing development. The first response was provided by Minister Sumarlin. Speaking on agriculture, he said that the Plan foresaw two ways of expanding this production, through intensification and through extensification. Intensification meant essentially intensification of irrigation by providing tertiary and field channel development to a smaller and smaller scale, and bringing water increasingly closer to the farmers, by multiplication and distribution of better seeds, by improvement of credit, etc. Extensification meant extension of irrigation to areas not yet irrigated and there were many such projects, notably in Sumatra and Sulawesi, and also opening up of new lands through transmigration and through nucleus estate development.

Despite the success expected from these programs, and the hope to achieve target growth rates of production of 4 percent for rice and of 5 percent for non-rice foodcrops, the Government was aware that agriculture and the rural sector could not absorb all the additional labor force. Hence the need also for industrial development to absorb labor. The Government was stressing in particular, the need to reserve budget resources for labor-intensive, generally small-scale industry. It was its view that large-scale industry should be able to develop without Government capital and without public funds, and particularly through joint ventures which would find financing abroad without Government guarantees. To Mr. McNamara's question as to whether planned growth of industry of about 11 percent would be truly sufficient, the Minister replied that this was simply a prudent minimum and the Government would strive to achieve a higher rate.

Mr. McNamara also asked about the policies which would lead to such industrial growth. The Minister replied that fiscal policies had already been improved, notably by reducing the rates and granting preferential treatment to those who used public auditors; this should reduce the uncertainty of their taxes which inhibit private investment. An effort was also being made to simplify licensing procedures. As for the promotion of small-scale industry, the Government was now extending preferences to small industry, notably in Government procurement. Small contracts would

May 18, 1979

be exclusively reserved to small-scale industry, while in the middle range they would receive a preference and only large contracts would be fully open to competitive bidding. The Government also wanted to spread industrial development outside Java, and was extending various incentives and preferences to industries investing there.

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Transmigration to be done by Mr. Altaf Hussain.

JBaneth:amt

OFFICE MEMORANDUM

DECLASSIFIED

APR 01 2013

DATE : May 17, 1979

TO: Files

FROM: Jean Baneth

WBG ARCHIVES

CONFIDENTIAL

SUBJECT: Meeting with General Pangabean,
Coordinating Minister for
Political and Security Affairs - May 11, 1979

Present: General Pangabean, Dr. E. J. Sinaga - Private Secretary
to the Minister.
Mr. McNamara, Mr. W. Clark, Mr. S. Shahid Husain,
Mr. C. Koch-Weser and Mr. J. Baneth

General Pangabean opened the meeting by saying how glad he was to meet Mr. McNamara. The two of them had much in common, having occupied the same defense functions earlier. General Pangabean noted that in those days, Mr. McNamara had been called "The Computer", though he knew that he had developed also human interests. Mr. McNamara noted how much Indonesia had changed since his first visit. Speaking only of the Bank, at that time, it had not yet, for good reasons, made any loans to Indonesia. By June 30 this year, lending will exceed \$3.4 billion. Mr. McNamara then went on to ask what were the political and security limits of development policies. He noted that, however development-oriented the Government is, some necessary policies had political limits. For instance, the rise in fuel prices, while quite desirable and indeed indispensable for economic reasons, was not as high as would have been desirable because of the political difficulties such measures were facing. General Pangabean responded by saying that he will make a statement on security conditions, and in order to be sure that it was coherent, he was going to read some prepared notes.

The aims of the Third Five-Year Plan had been fixed last year by the GBHN, the Guidelines of State Policy. They emphasized equity, but economic development must be ensured of security in order to be able to proceed. The next five years were going to be difficult in this respect. The Government was facing opposition both from the extreme left and from the extreme right.

Only one party was now represented in the Cabinet, the GOLKAR, which could be called the Government Party, while during the previous two Cabinets of the New Order, there had been Coalition Governments. One cannot properly speak of opposition parties, but the parties outside the Government would certainly use the weaknesses of the Regime for their own ends in the 1982 elections. The remnants of the Old Order, more or less regrouped in the PDI, are ineffective and spend most of their time fighting each other. However, the Islamic parties regrouped in the PPP, definitely are discontented and want to increase their influence. A major issue on which they are playing is that of corruption which the Government is trying to clear up, notably through the OPSTIB (Operation Regularity) led by Minister Sumarlin and Admiral Soedomo. The Government was determined to clean up corruption, but this will take time.

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Concerning the Five-Year Plan, the Minister merely said that its success was absolutely necessary; he did not want to go into details, which were better left to his economic colleagues.

The main threats to the Government, came from the extreme left and the extreme right. On the extreme left, most of those detained following the abortive 1965 coup will be released soon: the "B" detainees, i.e. those against whom not enough evidence existed to bring them to court this year, and the "A" category detainees will be processed through the courts next year. Nevertheless, these released detainees may not have been fully re-educated and some of them will still want to be disruptive.

The extreme right is essentially composed of some Islamic groups. The most extremist forms, the terrorists groups made up the so-called "Jihad" command, were probably mostly dismantled last year, but strong extremist influences remain. Not only are they quite active but they may also have external links. In particular, Libya may be financing them and providing weapons. Indonesia's answer to these religious extremists was the Pancasila philosophy. This was the foundation of co-existence and tolerance. A major effort was now being made to upgrade the knowledge of Pancasila by all civil servants, who all had to undergo a three-week training course, including training in understanding of Pancasila, of the 1945 Constitution and of the Guidelines of the State Policy.

The main anchor of the Government's external policy was the ASEAN. This was reinforced by the fact that the ASEAN also faced a common threat from abroad. On the extreme right, Muslim extremists were active and backed by the same elements in the Philippines, in Malaysia and in the extreme South of Thailand; they were even stirring in Singapore. As for the extreme left, the main problem posed to the Alliance was Indo-China. The Indo-China situation had acquired a new dimension, it now represented a war of giants, i.e. China and the Soviet Union through Viet-Nam. These giants were a potential threat to all countries of the Region. In this respect Thailand's situation was most difficult; it was in the front line. It bore the brunt of refugee burden with 200,000 refugees as against 60,000 in Malaysia, 15,000 in Indonesia and 4,000 in the Philippines. It also had a somewhat different attitude than the other ASEAN countries. For Thailand, Viet-Nam was the greatest threat. The other ASEAN countries thought China was the greatest threat, in large part because of the internal security threat potentially caused by their large overseas Chinese populations. In Thailand, originally, the insurgents had been mostly Chinese-backed and some of them ethnic Chinese. However, the situation changed when the civilian government was overthrown in 1976. Many students and intellectuals then fled the repressive right-wing regime, and joined the insurgents in the jungle. It is through concern with the security problems caused by the situation that General Pangabeau had been urging General Kriangsak the Thai Minister to make a major effort for rural development. He feared that the neglect of rural areas, the very large income distribution differentials existing in Thailand, particularly regionally, and also the very nature of the monarchic regime combined into a major potential threat to stability and security.

May 17, 1979

Because of their concern with Viet-Nam, Thailand's position on external relations was very close to China's. While the other ASEAN members were much farther from it concerning recognition of the New Cambodian Regime, however, the ASEAN countries had taken the unanimous position that they will not recognize it, at least until that Regime has fully established itself in Cambodia. In particular, even if it wanted to, Thailand could not do so without serious problems, given the presence of numerous and heavily armed Polpotian troops on its borders. Coming back to the extreme right and another set of problems in another part of the world, in the Middle East the Israeli conflict and now the split between Egypt and the rest of the Arab world created serious problems for Indonesia. There were elements trying to push Indonesia to the more extreme side in this conflict. The Iranian revolution also exacerbated tensions and was looked upon with some favor by many Islamic elements in Indonesia. Mr. McNamara then asked whether the movement towards an Islamic State in Pakistan also appealed to certain elements in Indonesia. Minister Pangabeian replied in the negative.

Assessing the future, General Pangabeian said that one might make the optimistic assumption that somehow a solution will be found for Cambodia, and that Viet-Nam would then be able to concentrate on development, which would be best for itself and best also for the Region. However, General Pangabeian thought that unfortunately one is likely to be faced with a very long conflict there between the Communist giants. However, he was reasonably satisfied that Indonesia will be able to weather these dangers, including the danger of the extreme religious elements. For instance, although the Ulama's had protested the Government decision to fix the date of school holidays independently from Ramadhan, through explanations and compromise the decision could be made acceptable.

Mr. McNamara asked whether corruption was not one of the main security problems, as it was truly a cancer on society. General Pangabeian answered that that was indeed a problem and the Government was trying to deal with it. He reminisced that he knew how mad Mr. McNamara had been at his "friend General Ibnu" a few years ago. Mr. McNamara said that he was not mad at General Ibnu himself but that Pertamina's doings, if allowed to continue, would have caused the ruin of the country in short order. The Minister restated his Government's intention to halt corruption.

The Minister's concluding remarks noted the link between external and internal problems. Thus, the Iran crisis had, he said, led to Russian purchases of oil products, which further raised the price of the kerosene Indonesia had to import. This enhanced the difficulty and sound cost of the follow-up measures to the November 15 devaluation.

JBaneth:amt

From: Jakarta

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Distribution
1979 MAY -3 AM 8:28
COMMUNICATIONS DIVISION
Mr. Koch-Wesser
Mr. R. Stern

1147 FOR KOCH-WESTER COPY ZINCIR

5/3
INDONESIAN PARTICIPANTS IN PRIVATE DINNER OF FRIDAY, MAY
ELEVEN ARE SOEDJATMOKO, WHO NEEDS NO PRESENTATION SEMICOLON
SADLI, PREVIOUSLY MINISTER OF MINING, VERY ARTICULATE ECO-
NOMIST, IS OBJECTIVE AND OFTEN CRITICAL BUT BASICALLY FA-
VORABLE VIEWS ON PAST DEVELOPMENT PROCESSES SEMICOLON SEDA,
PREVIOUSLY MINISTER OF COMMUNICATIONS AT TIME OF MCNAMARA'S
FIRST VISIT TO INDONESIA AND PREVIOUS TO THAT MINISTER OF
FINANCE AND UNTIL LAST YEAR, MEMBER OF THE SUPREME ADVISORY
COUNCIL, NOW IN PRIVATE BUSINESS, VIEWS SIMILAR TO SADLI
SEMICOLON SARBINI, ECONOMIST WITH HIGHLY CRITICAL VIEWS.
ALL THREE HAVE MET MCNAMARA. GUEST LIST ESTABLISHED IN
COOPERATION WITH SOEDJATMOKO. DINNER AT HOTEL TO SAVE TRAVEL
TIME AND SECURITY PROBLEMS. FULLY PRIVATE DINNER, I.E. RSM
WITH SOEDJATMOKO ALONE AT LATTER'S HOUSE SUNDAY EVENING AFTER
RETURN FROM BALI.

REGARDS

BANETH

TO : Memorandum for the Record

FROM : Stanley Please (Director, AEA)

DATE: October 2, 1979

SUBJECT : INDONESIA - Meeting Between Mr. McNamara and the Indonesia
Delegation, 1979 Annual Meetings, Sava Center,
Belgrade, Yugoslavia

1. Mr. McNamara met with members of the Indonesia delegation on October 1, 1979. Present were: Messrs. Ali Wardhana, Minister of Finance; Rachmat Saleh, Governor, Bank Indonesia; Soegito Sastromidjojo, Director General for International Monetary Affairs, Ministry of Finance; Arifin Siregar, Managing Director, Bank Indonesia; Husain, Please and Koch-Weser.
- 10/15
2. Minister Wardhana stated that inflation was becoming an increasingly worrying problem in Indonesia. There were clearly no simple answers to the problem and in the short run a tight money policy was essential, but beyond this there was a need to generate a more rapid expansion of production and to address critical social issues. The Government was attempting to generate a pipeline of projects which would be import-using in order to utilize the balance of payments surplus and also would generate high social benefits (e.g., health centers). Messrs. McNamara and Husain emphasized that an appropriate industrial policy to generate rapidly increasing employment opportunities was the major direction in which the Bank believed that these two objectives could be achieved. The World Bank was assigning staff both in Jakarta and in Washington to work on this set of issues as a matter of priority. Furthermore, a large part of our lending program was designed to support programs and policy changes in the industrial sector.
3. Mr. McNamara emphasized that the Bank did not consider the present healthy balance of payments situation justified any reduction in the need for external assistance in general or in World Bank assistance in particular. On the contrary, Indonesia was a poor country with considerable development potential. Development programs needed to be developed which could absorb not only the present flow of development resources from oil but also an increasing flow of external assistance. He would certainly hope to see Bank lending rise in real terms during the next five years provided policies, programs and projects are developed sufficiently rapidly. It was for this reason that he was anxious to see the implementation and disbursement on past Bank projects improve for it was difficult to urge increasing commitments to Indonesia when the undisbursed balance on past commitments was so large. Therefore, the periodic review of project implementation was of critical importance.

Cleared with and cc: Mr. Husain

cc: Messrs. McNamara, E. Stern, Jaycox, Kirmani, Hasan, R. Stern, Hawkins.

SPlease:bce

OFFICE MEMORANDUM

TO: Files

DATE: January 12, 1981

FROM: Edward V.K. Jaycox, Director, AEA

SUBJECT: Annual Meeting 1980, Meeting of
Indonesian Officials with Mr. McNamara

1. On September 30, Ali Wardhana, Minister of Finance, Rachmat Sâleh, Governor, Bank Indonesia, Soegito Sastromidjojo, Director General, International Monetary Affairs, Ministry of Finance and Ambassador Ashari, Indonesian Ambassador to the U.S., met with Mr. McNamara. Also present were Messrs. Stern, Husain, Jaycox and Koch-Weser.
2. It was essentially a courtesy call. Minister Wardhana thanked Mr. McNamara for the great assistance given Indonesia by the Bank since Mr. McNamara became president of IBRD. After running through some details of how far Indonesia had come in its economic development since the late 60's, and congratulating the Indonesians on this performance, Mr. McNamara asked for the Indonesian's help in getting some movement on the establishment of the energy affiliate. Mr. McNamara outlined the financial needs of developing countries, the implications of this for the finances of the World Bank Group, and the contribution that an energy affiliate would be able to make to meet this situation. Indonesia's leadership position amongst developing countries, and its role in OPEC, made it especially important in the decision-making process, and he hoped that the Indonesians would use their influence to assist the energy affiliate.
3. Mr. Wardhana asked about the Bank's plans for China. Mr. McNamara said that unless additional finance were available for China, then eventually lending to China would come at the expense of lending to other major Bank borrowers. China was a member, and could not for long remain outside the flow of benefits of membership.
4. Mr. McNamara asked Mr. Wardhana to let him know whenever there was an opportunity or a need to explain the energy affiliate and the financial realities of the Bank in various fora. He or his officers would be glad to supply information or make any personal visits that may be useful.
5. Mr. Wardhana recited some of the major difficulties facing decision-making among OPEC members, and outlined the limitations of Indonesia's role in that process.
6. The meeting ended with Mr. Wardhana expressing the hopes that Mr. McNamara would visit Indonesia soon, and often after his retirement, and that the Bank under his successor would carry forward the assistance to Indonesia that is so important to them.

cc: Messrs. Stern, Husain, Koch-Weser/Lafourcade

EVKJaycox:ncp