

**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**RACHMAT SALEH**

**November 26, 1991  
Jakarta, Indonesia**

**Interview by: John Lewis, Richard Webb, Devesh Kapur**

## FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Rachmat Saleh*  
*November 26, 1991 – Verbatim*

*[Begin Tape 1, Side A]*<sup>1</sup>

**SALEH:** Well, frankly speaking, I don't know where to start, see, because it's quite a long period of associations with the World Bank. Maybe if I take a relatively short period at the beginning of the present administration . .

**LEWIS:** Okay.

**SALEH:** You know, let's put this way: the--since independence when Sukarno was president, which lasted until '65, then the present president took over somewhere in '66. So maybe if we take about the beginning period of the present administration . .

**LEWIS:** That would be fine.

**SALEH:** . . because I think really the real meaningful association with the World Bank started only from that time on.

**LEWIS:** '68, I think.

**SALEH:** Yeah. Well, you know, at the end of September of '65 we have a coup here. The communist party attempted a coup that failed, and then in March '66 Suharto at that time virtually took over the government. At that time formally speaking Sukarno was the president, but on the 11th of March in 1966 he gave virtual power of attorney to Suharto to administer the country, to see to it that there is peace, no more fighting and so on. So de facto Suharto took over the government from the then president Sukarno in March 1966.

I think in 1966 when the first serious negotiations or serious exchanges of mind took place between Indonesia with the World Bank and the *[International Monetary]* Fund, the economy at the time was in very bad shape, so what was very much in our mind is how to check inflation and later on how to start to rehabilitate the economy and so on because we were not thinking at all about any development program at the time; the worry is how to check inflation because at that time inflation run high annually on something like 660 percent of *[inaudible]*

Virtually that was, I think, the first serious attempt to have a working economic relationship with so-called Western countries because before that Indonesia was closely cooperating with socialist countries but not that much really with the so-called Western countries. So in the beginning months, first negotiations were started with teams from the Fund, teams from the World Bank, and some embassies here in Jakarta. I think I would not exaggerate that we had the good fortune of having three good representatives of three very influential parties. The one from the Fund is Kemal Siber; maybe you have seen him.

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

**LEWIS:** Yes, we have.

**SALEH:** He is in Jakarta right now. He was representing the Fund. The one who was representing the Bank at the time was Bernie [*Bernard R.*] Bell. And from the American embassy we had the good fortune to have Stokes Tolbert, who later on joined the Bank also. I think he is still with the Bank, Stokes Tolbert.

**LEWIS:** He's retired now, but he was with them for a long time.

**SALEH:** So we had the good fortune of having these three people, very keen economic analysts, I would say, very realistic view on things, and I think they enjoyed quite a confidence from the leadership of their institutions to say things, to do things with us, and in so doing make things really easier. Really in a decision with these three that the first shapes of economic rehabilitation program was drafted, and with these three the first attempts to renegotiate our debt obligations with our creditor countries, and really with this three people the first steps toward the present IGGI [*Inter-Governmental Group for Indonesia*], which is the inter-governmental group of aid to Indonesia.

I must say, in the beginning probably the Bank has not a very decisive role here. It was really the Fund because our problems were really short-term, much of it are inflation, much of it are balance of payments problems, so it was really with the Fund with whom we are having financial negotiations. And only in 19—if I'm not mistaken—in '68 that the Bank really became more interested, and I think the first aid of the World Bank have started somewhere in '71, if I'm not mistaken. And when problems of Indonesia have shifted from short-term into the medium- and longer-term problems of development and balance of payments problems become less and less urgent, then the World Bank really—they're dominant up 'til now.

I can't say that's much [*inaudible*] I don't know what . . .

**LEWIS:** Well, that's very helpful, and it helps to fill out--we've had a picture that certainly squares with that, so that you confirm some of what we've heard.

I don't know how much you want to go right straight through, but one episode that we're curious about comes up later when you were the governor, and it has to do with Pertamina. We don't—in a way the Bank was not associated, as far as we know, with the "Pertamina crisis," so-called. But on the other hand we're kind of puzzled about that because there's this very strong and apparently effective macro policy dialogue going on between the Bank and the Widjojo [*Nitisaastro*] group right along with lots and lots of exchange discussion of demand management, broadly speaking--finance, monetary. And it would seem almost that the Bank should have been, once the oil shock came and one knew that these greatly enhanced revenues were coming home and then could imagine that that would increase one's creditworthiness to do a lot of borrowing, you'd think that the Bank would have been more attentive to what was going on. Is that unreasonable?

**SALEH:** I would picture things rather differently because really in the beginning of the '70s--'71,'72--that is still within the first five-year plan period, and we stated that our first five-year plan is really a rehabilitation program, that it's not much of a real development program in terms of making large-scale investments and so on. We are interested, of course, in rehabilitating irrigation, roads, and what not, but those are really in terms of rehabilitation, not much new investments.

When the first oil shock came and there were signs of sharply increasing foreign exchange revenue for the country, the debate was really how to prioritize the utilization of the extra gain. As I remember, of course, with the Fund we still have our standby arrangements. With both institutions, really, the debate was about priorities.

Now, the so-called technocrats, Widjojo and group and so on, probably including myself, from the beginning, of course, we know that we have to be careful about the utilization of the extra gain, proper priorities and so on. But on the other hand, because this gain is in an oil field, then you can imagine that Pertamina feels that they have a lot of say on how to utilize the money when it comes really in terms of what the president will decide.

Now, there has always been a feeling like that, that with the Bank things are slow, you see. Decisions are quite slow. Preparations of projects has a long time. Maybe the implementation is not that easy. Feelings like that, of course, was also present here in the country. So when revenue started to come in, big gains, of course Pertamina and some of the other people: "Why do we have to really rely on the World Bank? We have our own money. Why don't we get things done sooner, quicker?" And by developing such a line, priority in terms of true economic priority maybe takes a sideline, is on the sidelines. The point is: "Think this is a good project? Of course let's do it. It's good? Let's do it."

And you can imagine that in the beginning, my guess is that the president, being a practical man and whom like everybody else would like, would prefer to see things get done sooner and quicker, he was very impressed, of course, with the Pertamina rules until people came to see how Pertamina implemented: not much learning, not much prioritizing, until they more or less commit themselves to expenditures beyond what they actually earned and start borrowing and so on and the over-borrowing muck. There is not much of system in doing and so on. There is not much, but--until they really get caught in the kind of a situation where there was a real danger of not being able to honor interest which are due, payments are due. They cannot roll over short-term debts, and that was the time when the Pertamina crisis started. And I think we finally managed to convince the president that we could not go on like that.

Probably also indirectly being helped by a new posture of the World Bank. People started to think, "Well, Indonesia is getting that much money, so no more I-D-A [*International Development Association*] fund. Why always I-D-A fund? So now Indonesia should be resorted into the normal funding of the World Bank," and so on and so on. And also, "Indonesia should learn, starting getting private capital, the private capital market." Talks like that have started during the period (that being also the thinking on the part of the World Bank), but on the other hand seeing things how worked

out as was done by Pertamina, they virtually mismanaged the whole thing. If that were to continue, we would never have been able to really come into the market, to borrow in the capital market at normal or reasonable rates.

And the problem is also that has a kind of an effect because when we started to talk, I mentioned to the president, he said, "Look, I think we have some revenue. It's a good base. Of course there is assistance from the World Bank, Fund assistance, but there is also an opportunity now to look into possibilities of raising money in the capital market, private capital market, but we have to organize things." And we were able to point out how wrongly Pertamina did things. So we managed to *[inaudible]* Pertamina and so.

**WEBB:** That was all in '74?

**SALEH:** That was in '75, the so-called Pertamina crisis started in April, March or April in '75.

**WEBB:** Did the Bank get interested, worry about the problems that same year or did they stay on the sidelines?

**SALEH:** You see, discussions about unhappiness about how things were done by Pertamina started as early as the start of the oil boom. We saw dangers in the way things are done. We saw dangers in the way Pertamina committing itself and so on. Talks like that has gone on for a while. The so-called Pertamina crisis is still here, combination of . . .

**LEWIS:** You were talking with the World Bank about—and perhaps the Fund also about . .

**SALEH:** Oh, I think during those period teams are coming on and off I don't know how many times a year: World Bank team, Fund team, ADB [*Asian Development Bank*] team. These kinds of things are [both speaking at once] all the time.

**WEBB:** So the World Bank was expressing worry?

**SALEH:** I think that's fair to say; it's fair to say. The World Bank, the Fund, of course, and also some of our creditor countries has mentioned, "Look, you cannot go on like that."

**LEWIS:** Is it fair to say that Pertamina had a separate and strong line to the president as did the technocrat group, and then so for a time your concern wasn't able to register?

**SALEH:** Well, there was something like a--people used to call it something like competition, you see, between the Pertamina approach and the technocrats' approach. [*Laughter*]

**WEBB:** In these contacts with the Bank, were they always just conversations? Did this

sort of thing get written . . .

**SALEH:** Oh, I'm sure that there are notes, papers. I'm . .

**WEBB:** To the government or internal [inaudible]

**SALEH:** Well, let's put this way: sometimes at that time things are done not quite officially. You don't write officially, for instance, to the minister of finance, but you give a paper to Ali Wardhana. Now, how would you judge this: in his capacity as minister or in a personal capacity? The point is that discussions did take place.

**LEWIS:** Yes, Professor Widjojo told us about the phenomenon of “nonpapers.”

**SALEH:** Yeah. Sometimes Japanese use also another term: “talking papers.”  
[Laughter]

**LEWIS:** “Talking papers.” We use that in the U.S. government, too, sometimes.

**KAPUR:** The earlier episode of the late '60s in the resolution of the debt, did the Bank have any role there or not really?

**SALEH:** When we go to meetings, there are always present the representatives of the Fund and the World Bank. Normally we do discuss things with the Bank, the Fund, thinking about what should be our proposal, what should be our thinking. Things like that took place continuously since '66 onwards.

The first meeting of rescheduling debts was in Japan before it was moved to Paris.

When the IGGI was about to be formed, there was also a problem: who should chair it? Certainly there was a good case of those who wants the Bank to chair it because, as I remember also in the debt meeting problem, where I think it was the case of Ghana or some African country because the World Bank was chairing certainly in the aid consortia group what they were doing. So in our case also when we discussed who should chair this aid meeting, there were wide proposals that the World Bank should chair it. But finally, after much discussions and considerations and so on, the choice was Holland had been asked to chair.

**LEWIS:** Why did the government resist the World Bank chairing it at that point?

**SALEH:** Not the Indonesian government.

**LEWIS:** No?

**SALEH:** Not the Indonesian government. There were those who think that this is an aid group. In particular at that time contributions came particularly from governments.

**LEWIS:** That's right. There was no World Bank input much of that . .

**SALEH:** World Bank input was very limited, maybe none in the beginning.

**LEWIS:** When did it start, IGGI?

**SALEH:** '68.

**KAPUR:** '67.

**SALEH:** No, it was February '68—'67, yes, you are right.

**LEWIS:** So the Bank wasn't here at all at that point, actually. [*Robert S.]* McNamara didn't make his visit until June of '68, and so they would meet you in these international fora, but I can see then that . .

**KAPUR:** Officially the government of Indonesia might not have yet even become a member of the World Bank by that time.

**LEWIS:** They had resigned.

**SALEH:** I don't quite remember when we rejoined the Fund and the Bank.

**LEWIS:** Yeah. Kemal Siber told us that he came here as the representative before you had rejoined.

**SALEH:** Yeah, that's right.

**LEWIS:** He was sent by Tun Thin.

**SALEH:** He came here really to feel, to have preliminary discussion why, what does the Indonesian government think now, would the Indonesian government soon rejoin the Fund and the Bank, preliminary discussions. So when he first came here certainly we were not members of the Fund again.

**WEBB:** [inaudible]

**LEWIS:** Trade. Yeah, I think that--no, no, no, I think that's a good idea.

We're interested in sort of following the role of the Bank vis-a-vis development strategy, and one impression we have is that in terms of a expansionist as against a more financially conservative strategy, the Fund, the Bank, and you were all together on quite a conservative track. This is what the president wanted and this was reaction to your inflationary experience earlier. In terms of the well-known thing among development economists, import-substitution and export-oriented strategy, I presume that Indonesia would be called a case of import substitution mainly for some time. The Bank was not all



that focused on export promotion either, I think, in the early '70s, but at any rate at some point the Bank did shift, and how that affected Indonesia would be interesting. When did you change?

**SALEH:** I think you are right. In the early '70s and even toward the latter part of the '70s, so-called industrialization initiative is really import substitution. Now, the World Bank, as I remember, its concentration was here on infrastructure. The point is how to improve the infrastructure of the nation--roads, irrigation, ports and so on, electricity and what not--not quite really about industrialization as such. So in that context I do not remember a real pronounced policy on the part of the World Bank, how we will issue industrialized country. So we did go on our own way. Of course, in the beginning import substitution, and only later on toward the end of the '70s, when people came to see that our industries have become very inefficient or remained inefficient because of the too high taxments on, only toward the end of the '70s, I think the World Bank really come up with this, "Now, look at the mistakes of some other countries. I think Indonesia should be more outward-looking, faster in its industrialization," and that started in '78, '79, I think, '78.

**LEWIS:** And you were also receptive to that change?

**SALEH:** Oh, quite certainly. As in the government itself, you see, even starting probably in '77 there were those on the side of so-called departments of industry, departments of agriculture, who tended more toward the so-called import substitution: "We have to rely on a relatively big domestic market" and so on and so on. The more monetary people like central bank, finance, and BAPPENAS [*Badan Perencanaan Pembangunan Nasional, National Development Planning Board*], they are more critical about that. So even in the government itself opinions are not always unanimous, you see?

**LEWIS:** Oh, that's right. Yes, that's true of many governments! Well, this is a case where in this government finance and the planning ministry were together on these things. Often that's not the case. Finance is conservative, and finance and the planners are pushing physical expansion. But that was not the case.

**SALEH:** Planning, because Widjojo was there, was . . .

**LEWIS:** And he was in charge of--he was the coordinating minister for that.

**SALEH:** That's right.

**KAPUR:** Then after this, in the early '80s, I guess, there was an unofficial Bank paper on industrial restructuring.

**SALEH:** Yeah, then I think starting early '80s, the official reports of the World Bank really started to stress on the need of export, on outward-looking and so on, so really early '80s things are starting.

**KAPUR:** I believe that were some differences between or maybe within the GOI [*Government of Indonesia*] especially on credit policies. Is that true or not?

**SALEH:** Not quite. What is predominant during those periods is the role of the so-called technocrats, and the technocrats really are in the ministries of finance, central bank, and BAPPENAS. So these are people who are not very keen about large-scale credit expansion and so on. These are the more or less--a group with a more restrained view on things. Those are the technocrats, and they are all in the ministry of finance, central bank, and BAPPENAS.

**WEBB:** You had this change of concern in Washington more or less parallel to your change. Something similar happened in respect to financial issues [*inaudible*] monetary policy. Do you remember how that worked in terms of the time off? Was there anything like the equivalent [*inaudible*] for industry? What kinds of messages did you receive [*inaudible*]

**SALEH:** Those are the times when I was--I have always been with the central bank until '83, so I quite remember how we felt and how we see things. When there is a change in government in '65, in the late '60s or even the early '70s, there is really not much of a banking industry in this country. Prior to '65 many experimentations have been done about how we should organize our banking needs. Inflation was rampant. There is really not much of a banking, bank areas, were there. So what we really wanted to achieve during these years is to stabilize things and support individual banks so that they are free of failures and help them getting themselves reorganized and start to really "put house in order," I would say. At that time it was unthinkable of having a liberal policy like now, of using conventional monetary instruments or financial instruments, because things were not understandable here. The liberalization of the banking industry which we were able to do since '83 and more so since two or three years ago, that could take place because at the time banks were all more or less ready. They are, have sufficient staffs, training programs that have been done in the '70s, inflation was not there anymore so people they start thinking in terms of real banking business, [*inaudible*] of credit--which was not quite the case in the '50s or early '60s because of the interest.

**WEBB:** In the '70s did the Bank [*inaudible*] accepting credit, national policy, or just saying trade policy?

**SALEH:** I would say so. You see . .

**WEBB:** The Fund?

**SALEH:** The Fund, of course, was always preoccupied about domestic assets should not increase too much, there's the limit of domestic assets and so on, although our last arrangement with the Fund was in '72, I think. Since then we don't have standby arrangement anymore with the Fund although we plan ourselves with prior assistance from the Fund, the Bank, how we should plan our monetary expansions, but we will have

no standby arrangement anymore with Fund. So in those days preventing of recurrence of inflation has always been very strong, and that more or less sets the line on how monetary policy should be conducted.

**LEWIS:** How independent is the central bank of the ministry of finance? Or is that sort of redundant, the wrong question, because you are subject to the guidance of the coordinating minister?

**SALEH:** I became governor in '73. I think the minister of finance at the time was Ali Wardhana. The coordinating minister was Widjojo. I think we have complete confidence in what each of us are going to do. So we don't need to go very much in the way of coordinating! *[Laughter]*

**LEWIS:** So you can coordinate without checking, huh?

**WEBB:** Did you know each other before . .

**SALEH:** We, of course, are graduates of the same school . .

**LEWIS:** Berkeley.

**SALEH:** The faculty of economics here in Jakarta. Whereas Ali Wardhana and Widjojo went on to Berkeley, I did not. I joined the central bank.

**LEWIS:** I see.

**SALEH:** Widjojo and I are schoolmates, even from high school days, you see.

**LEWIS:** Really? My goodness. It's a small--it's a club!

**SALEH:** That was, I think, a good fortune because we really came from the same school. We more or less had the same ideas. We were playmates. So we know each other. We trust each other. I think that makes things very much easier and no doubt quite thrifty during those years.

The president was really a man with a very open mind about economic policies. He almost accept anything that were recommended by this group. That was, I think, really the key factor in making things a success.

**LEWIS:** That's really fascinating, and one still wonders now why did that happen that way. Maybe because all you were recommending was right and he's a smart man! *[Laughter]* He must--did he have some inclinations along the same lines himself, of sort of financial conservatism?

**SALEH:** I think it's really a matter of personal trust.

**LEWIS:** Personal trust.

**SALEH:** He really has great confidence in some of his assistants, Widjojo in particular, that I really can mention. The president has such a great confidence in him that--and Widjojo is a very careful man. He is not a man who will rush to a conclusion. He thinks and rethinks, and so whatever recommendation comes from him, the president is sure that it has been thought of very carefully. I think that was a big part.

**WEBB:** Did the president ever have much direct contact with the Bank?

**SALEH:** No, not--with the bank--the central or the World Bank?

**WEBB:** With the World Bank, McNamara, vice-presidents . . .

**SALEH:** Of course, each time McNamara comes here or a senior member of the Bank comes here, almost always they are making calls to the president, and they listen to whatever he has to say.

**WEBB:** What I was wondering is whether the president was influenced by the trust that the Bank placed in Widjojo and yourselves.

**SALEH:** I think it was a definite understanding, what we made. The World Bank nor the Fund would very rarely make their case directly to the president.

**WEBB:** I meant, did he see that they trusted you? Did that influence him, or did that not *[inaudible]*

**SALEH:** You mean that . . .

**WEBB:** The president trusted you. Was that reinforced by the Bank's trust in you?

**SALEH:** Oh, no doubt. I think.

**WEBB:** That helped to increase the president's trust?

**SALEH:** Of course, once in a while things will take a different turn, you see. The president may become critical about certain thinkings of the Fund or the Bank, but everything--that's okay. We, of course, did our share in convincing the president that this, this, this are quite good. And most of the times he will agree.

**KAPUR:** Do you recollect an example where this might not have been the case?

**LEWIS:** You mean when there was some conflict?

**SALEH:** Well, in the beginning, right after the first oil boom when everybody was very optimistic about going our own way, the World Bank and the Fund of course always

trying, you know: "Be careful not to overextend yourselves. Get your priorities right." Well, sometimes the president, I'm sure, may have felt, "Why so tentative? Why not more push?" It's quite understandable, you see.

**LEWIS:** You've had some very rapid increase--well, your increase in non-oil exports has picked up, I guess, roughly since oil prices declined in the early '80s. You were sort of forced then to look more to other kinds of things. The rates of growth that I hear about in the last two or three or four years have really been quite rapid. Is this a kind of expansion that you see being extended, or is it a question of starting out from a very low base and making a jump up, but it's going to be harder?

**SALEH:** Well, of course, we started from quite a low base.

**LEWIS:** Yes.

**SALEH:** But on a year-on-year basis we are still expanding since '86, I think, quite well, you see. The future probably . .

*[End of Tape 1, Side A]*

*[End of interview]*