

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

SALEH AFIFF

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.

Saleh Afiff
November 26, 1991 - Verbatim

*[Tape 1, Side A]*¹

LEWIS: The Bank, if you look at it in Washington or from other perspectives, has seemed to turn some fairly sharp corners. *[Robert S.]* McNamara came aboard, after all, at about the time that people were discovering that trickle-down didn't work, they said, and then he had to push very hard for kind of populist programs, poverty alleviation and so on. That was his trademark. That was just when the Bank was getting started here, and as far as we can tell was on a rather different track in a way, as you were interested in macro stability and responsible financing. And then, of course, at the end of the '70s there was this sharp turn in the Bank toward adjustment, really toward policy-based lending. As we hear the story here, there's been a policy dialogue going on all the way through. But what have you seen about the--have there been changes in the Bank's message, main message, about development?

AFIFF: Well, I--maybe you have seen my curriculum vitae, you know, I don't know. I started in this office as Bureau Chief, Agriculture and Irrigation. I was the first one of three of us of the new Indonesian regime to negotiate a loan from IDA *[International Development Association]* at that time.

LEWIS: I see.

AFIFF: It was 1968, a small loan, five million dollars.

WEBB: That was the very first Bank loan, wasn't it?

LEWIS: Yeah, we've heard about that.

AFIFF: *[inaudible]* That was just because the IGGI *[Inter-Governmental Group for Indonesia]* was just formed and members and so on, and then suddenly we found that there is an opening, and we have come up to identify *[inaudible]* We have been—I don't know—we have been always—I am an agricultural economist by background.

LEWIS: Oh, good.

AFIFF: And so I was very happy in the Bureau when the government decided to, really to start emphasizing, giving priority to agricultural development because according to me that's the best strategy because the poorest of the people were there and so on.

So when we approached the Bank, we started with them, "Look, we would like you to participate in this type of strategy." That was '68. I don't know whether McNamara was there or not.

LEWIS: Yes, he'd just come.

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

AFIFF: That was my *[inaudible]* and because of that they agreed, and especially in rehabilitating thousands, hundreds of thousands of hectares of irrigation works, technical irrigation, which was neglected in the '50s and '60s, not maintained. Saltation was high, inefficient and so on. So we started with that big.

Since that time I went as bureau chief two, three times a year to negotiate this type of thing, irrigation systems, agriculture, intensification programs, and so on and so on. So in that sense it coincides, if what you said about McNamara, more appropriate and so on. When we came in, when we start our first five-year plan, the emphasis on agriculture and rural development, and once we graduated from IDA we start more to the harder things like electricity, roads. It was basically infrastructure and human resources development activity.

Some in the early years also—'60s and '70s, late '60s and early '70s--goes to the fertilizer plants. That is, as a result we built—we have one of the biggest complexes of fertilizer plants. It is not in one loan. The first loan is about 350,000 pounds and then 500,000 pounds, 510, because it coincides also with agriculture. We need the fertilizer. As you know, the technology was now known, what you called then the “green revolution.” The variety is there. We need urea and so on. And we have gas, and we have--we received a loan from the Bank in order to build.

LEWIS: Wasn't some in the Bank skeptical about the fertilizer plants?

AFIFF: Once, yes, because they don't believe in the beginning. Not too many people believed it actually at that time, that we will, that the farmers will absorb the new technology that fast, you see, because they never used chemical fertilizer before, before the '60s and '70s. They used this normal fertilizer, you know, a very small amount anyway of chemical. We have a small urea plant, but it's not much here. Then we introduced this new technology, and people are skeptical, but we have a price policy, you see, in which we have the ceiling and floor price policy of rice in which we protect the farmers during the harvest season from a too low price and the consumers during the pre-harvest season. In between the market is free. So with that so-called . .

LEWIS: You enforce this by a government marketing operation, then.

AFIFF: Yes. But, you know, procurement during the harvest and selling it during the pre-harvest. We do the storage. But in between those prices the private sector is free to move because we want to protect the consumers and also the--because, you know, there is always a downswing very heavily in the harvest season.

LEWIS: Yes, yes. And this reduction of risk you think . .

AFIFF: Exactly, and we give them an incremental benefit/cost ratio quite substantial in the beginning with the purpose to attract the farmers for using the new technology but also increasing their income. And that works, this worked. And so the absorption of--the demand for fertilizer jumped quite rapidly in the beginning. In the beginning the World

Bank is skeptical whether--it is a good approach but whether you can move that fast. But after a couple of years we can see from the import figures of fertilizers that we are using quite substantial fertilizer, and we have the gas, the resources.

KAPUR: Was the Bank skeptical about the use of fertilizer per se or about the imports of fertilizer versus manufacture?

AFIFF: No, they are skeptical about the absorption of the farmers of the new technology which requires using fertilizer.

LEWIS: Well, you could--you had the option of import or make it, and there was a lot of . . .

AFIFF: But not easy--millions of tons of--you know, we have to import it from Poland, we have to--and then it has to be in time in the *[inaudible]*

LEWIS: But I know what you mean. I was in the fertilizer business in India, and I kept arguing the same way, but there was a lot of supply on the market. They were flaring natural gas in the Gulf and so on, and some people thought that you ought to make your ammonia there and that would be very cheap. But I'm glad . . .

AFIFF: Well, natural gas, maybe there is a lot, but the fertilizer market—I experienced it because it's not—it's not stable.

LEWIS: That's right, that's right. For security reasons really almost you would have a good case for having--in a market this size—to produce your own.

So they were really into agriculture right alongside you?

AFIFF: In the beginning, yes, yeah. And infrastructure and then human resources development and education.

LEWIS: We'd like to continue this business of sectors, but we've heard some things just today at lunch from Dick *[Richard H.]* Patten, actually, about this, your INPRES *[Instruksi Presiden, Presidential Instruction]* program, and that . . .

AFIFF: He can tell you stories, then, huh!

LEWIS: Yeah, right!

AFIFF: Would you like some coffee, please? Or tea?

LEWIS: A cup of coffee would be nice.

[Interruption; pause for coffee]

LEWIS: We'd love to hear your sort of summary of that and particularly interested in-- apparently the World Bank, a lot of people in the Bank were in favor of trying to contribute to that, but other people were resistant and they never did it, that you had to go it alone. Is that right?

AFIFF: Right, right. I mean, when we started the INPRES program the World Bank--it depends on which people you talk to in the Bank, you know; it's a big organization-- they're very skeptical because we're granting the provinces and districts funding, you know, okay? This is more of a grant, you know, this, to develop the regions, because you know the stage of development in the regions is led by the biggest, is way above Irian Jaya, Java and so on. This is a huge country, as you are aware, and so we try to improve the situation with reducing the discrepancies between the regions and granting them so that they could develop their own projects and so on, but of course in the beginning with guidelines from central government--and that is minister of internal affairs, you know-- what use, of course, for infrastructure, not for housing for the governor or something like that, you know, not consumptive but more really for . . .

And we have also an elementary school program in which we develop elementary schools. In the last, during the INPRES program from '74 to now, maybe we have built about 60,000 more . .

LEWIS: 60,000.

AFIFF: . . elementary schools. And we're continuing to build more in the remote areas. I think the participatory rate of school-age children at a time--in the beginning noises are [*inaudible*] will be just 20, 30 percent loss of the total allocated to the regions because the system is not established yet. All right. At that time we have, as you know, in '74, oil money and oil went up, you know, and okay, if we don't start it now and if we wait for a perfect procedure and system, with a country with at that time still poor communication then you might have lost the opportunity, so we decided to--to do it anyway. And after a couple of years they become, they change their minds--I mean the Bank--and some suggestion to participate. But you know the Bank! I mean, I know you know the Bank. We are worried that they will change the procedures and so on and so on according the theologies they have in the procurement system and so on and so on, you know. So I say, "Well, we are happy with our system as it is. Don't . . ."

LEWIS: Do you remember who in the Bank resisted it?

AFIFF: No, I don't recall really, but it certainly was not Bernie [*Bernard R.*] Bell.

LEWIS: No, I understand that. Patten said that Bell was for it, and then his successor [*David L.*] Gordon was for it.

AFIFF: I thought that Gordon who is . . .

LEWIS: Do you think he resisted, Gordon resisted?

AFIFF: I really--I don't know.

LEWIS: And there was the rural development crowd in the Bank like, headed by Monty [*Montague*] Yudelman. He was for it, I understand. There were some other projects people who were questioning it.

AFIFF: Look. In the beginning, as I said, they are criticizing us that “you are wasting your money.”

LEWIS: Too decentralized, too loose.

AFIFF: Yeah, because the system is not good yet. Okay, that is the beginning. We started, as I said. But then when it starts to show some successes, significant successes or whatever is going on, they would like to participate.

LEWIS: They wanted to come in then, yeah, yeah.

AFIFF: They want to go in there and give us—but, of course, with conditions and so on. And at that time--you have met Professor Widjojo [*Nitiasastro*], perhaps; he was the chairman . .

LEWIS: Yes, yes.

AFIFF: . . he said--we discussed it among ourselves, and said, “Well, they might--this is the regions, you know. Regions are far away from central--and they might change procedures, you know. They might suggest changes and any, which might not be suitable for the regions, far-away regions, and so on.” And at that time we still had the money, at that time the oil money, you see, ‘78 it becomes higher again. So we say, “Why don't you concentrate as to the World Bank on others, infrastructure and so on?” That's what we did. Who is against it? So I [*inaudible*]

LEWIS: The idea for all of that--the design, so to speak, of that INPRES program--that was pretty much Indonesian?

AFIFF: Indonesian, but Dick Patten and another Dutch expert who is in here assist us.

LEWIS: I see, I see. I guess Patten had come from East Pakistan. He'd done something like that in Pakistan.

WEBB: Just to get an idea, Patten said that he thought this INPRES budget amounted to something like 15 percent of the total budget every year. Is it that much?

AFIFF: Yeah, just a moment. It depends, you know, with what do you compare.

WEBB: Okay.

AFIFF: If you look, the INPRES program is totally rupiah program. Now, if you look at our budget, it consists of two parts: there's the rupiah expenditures, development expenditures, and foreign aid [*inaudible*]. Now, this year, for example, we have about four billion—four trillion out of eleven rupiah. [He has apparently moved away to get documentation.] Four of the eleven, about that much.

LEWIS: Four out of . .

AFIFF: Out of eleven.

LEWIS: Four billion out of eleven?

AFIFF: Trillion, trillion rupiah.

WEBB: Four billion is the INPRES?

AFIFF: Yes.

LEWIS: Out of eleven trillion?

AFIFF: Four trillion out of eleven, almost 35 percent, something like that.

WEBB: Eleven is the total rupiah?

AFIFF: That is rupiah expenditures.

WEBB: Development funds.

AFIFF: Yeah.

LEWIS: So this is about 35 percent of the rupiah . .

AFIFF: Expenditures.

LEWIS: My goodness!

AFIFF: So our [*inaudible*] of government [*inaudible*] is [*inaudible*]

KAPUR: I'm sorry. What is the savings rate in Indonesia?

AFIFF: Total government savings or what?

KAPUR: Both public and private combined.

AFIFF: Why, I really--I have the figures for that but I forget about it.

We give priority to that program because it is, first, employment creation. It is rural, basically, also, because we give villages allocations. Each village receives an allocation, women's groups in the villages who perform social functions, they can help family planning and so on.

LEWIS: It has a self-help element too, doesn't it? Matching grants?

AFIFF: Yeah, matching grants and some things like that. So we give, for example, a village three million rupiah. The village head and community there should develop a project which can, might cost them a million rupiah, and we give part from this, central government.

LEWIS: I see.

AFIFF: That is what really developed the rural, I would say, the INPRES program, in addition to the agricultural development through . . .

LEWIS: What--do you have any offhand notion of what percent of GDP this is? It's pretty—it's nontrivial, isn't it?

AFIFF: GDP? That's put at 100 billion dollars now. 100 billion dollars—is it? I start thinking of—yeah, if it is four trillion, it is 2 billion dollars.

LEWIS: 2 billion? So it's two percent? That's a pretty big fraction. Huge. [all speaking at once]

WEBB: *[inaudible]*

LEWIS: That's really—that's a serious commitment. That is very impressive. And where does that commitment come from? I mean, I know there are a lot of different people are involved, but obviously it must reflect the priorities of your president to some considerable extent and . . .

AFIFF: *[inaudible, speaking to someone else in the room]*

LEWIS: Clearly, these are the kind of allocations that you've proposed from this office, and the economic group as a whole, I suppose, shares this, but in a system where you had a very active set of public and parliamentary forces, a more overtly democratic system, you expect that there had to be a political explanation for such a big allocation. Where is the motivation for this?

AFIFF: Well, as I said, we are committed to a--from beginning, actually, poverty alleviation, because in our philosophy of development is, what is the goal? We have triple objectives, we call it, which is growth, equity, and stability. And this--for poverty alleviation you need to grow, but there are certain pockets which do not benefit fully

from the growth. We give special programs for them. That is, the objective is growth, equity, and stability. So we try to balance between, so in our objectives a sufficient growth rate--not high growth rate--we call it . .

LEWIS: Sufficient growth rate.

AFIFF: . . so that we can share all the allocations we have. But we have the last two years quite higher than normal. *[Laughter]*

LEWIS: Higher than sufficient?

AFIFF: It is above seven percent, and all problems created there, infrastructure and so on, overheated economy, and everything is there.

LEWIS: We see in the newspapers there's quite a lot of debate now whether next year is going to be more . . .

AFIFF: Yeah, tight money policy or not. We are tightening now the money policy, the money supply, and balance of payments problems and so on. But that is the philosophy.

But in parliament we have two stages of discussion before this, before we submit the budget and after we submit the budget.

LEWIS: I see.

AFIFF: And almost we hear voices that the INPRES program should be increased through the allocation and so on. And, of course, 80 percent of the regions also *[inaudible]* They have problems to our *[inaudible]* also. Even in the lean years of the Repelita IV, 1984-88, when we have a sharp decline of oil prices, you know, '85, '86, we maintained the INPRES allocations out of subsidy, the sectoral allocations subsidies. We maintained the INPRES allocations.

KAPUR: There's one sort of feature of Indonesia that is very different from most other LDCs *[less developed countries]*, and it's the very different spatial dimension. It's very unique, in fact, you know, the sheer number of islands and the vast geographical expanse. I'd be curious if you could tell us if the Bank has been sensitive to this difference, or this unique aspect of Indonesia, whether it is in the transportation development sector, whether it is in sort of implicit or explicit subsidies for the more disadvantaged regions, so on and so forth? Has that been—I mean, I'm sure it occupies your mind a great deal, but do you think it captures their attention?

AFIFF: I would say, yes, especially the last years, I mean the more recent years. Well, let's put it this way: in the earlier years in agriculture when we decided to rehabilitate our irrigation system to be more efficient and so on, we looked also in other sectors of agriculture, that is, the estates, crops, you know, the plantation system, cash crops like palm oil, rubber and so on. These are located mostly outside Java in Sumatra, but

Sumatra is consisting—are existing plantations which we took over from the Dutch become state enterprises . .

LEWIS: I see.

AFIFF: . . that we took over in '57, '58 and becomes . .

LEWIS: And you've still got 'em!

AFIFF: . . we've still got them and we got stuck with them, and it is very inefficient and so on. But then they start—and the Bank help us with four or five big estates in North Sumatra and so on.

Then we noticed that other country, other areas, other islands like Kalimantan, who never knew a plantation system, or in Sulawesi or even now in Irian Jaya, we can develop the same plantation system, but what we call the nucleus estate, you know. There is a nucleus estate of 4,000 hectares and surrounding it is by the smallholders. And this is really a very successful approach. This is the Bank's idea, for the nucleus estate.

LEWIS: It is the Bank's idea. All right.

AFIFF: Nucleus estate, and then surrounding an estate, consisting of state enterprise, yeah, 4,000 hectares, for providing the processing facilities and—how do you call it—extension services to the small farmers around it.

LEWIS: Isn't the Bank trying to get you to privatize the nucleus now?

AFIFF: Yeah, they try, they tried to do it, but it's not—but the private sector is full of this pattern. They are doing it now.

LEWIS: I see. I guess this is a country that has done more of that than any other, but that sort of pattern has sometimes worked with the large private grower.

AFIFF: Yeah, but first it was state, it was only state enterprise, and there's not too many estate private enterprise at that time.

LEWIS: That idea from the Bank was somebody in agriculture department . .

AFIFF: Yes.

LEWIS: . . or somebody here?

AFIFF: No, from the Bank. We talk about it, you know. First, actually, it is more--and they are very much involved in transmigration, as you know, in those years, and transmigration is actually rice and cash crops, food and cash crops, and the cash crops. And then when it becomes more difficult, why not developing this nucleus estate because

it is still the same people, people who are now trained as rubber planters?

LEWIS: This is a way to sort of create an environment for the transmigrants when they come in and do these small things and they get the guidance from you and--I see.

AFIFF: Now we are—in Irian Jaya we have cacao, palm oil in Sulawesi. It doesn't exist anymore. In that sense, I would say, yes, but they are also interested in sea communications, you know, small harbors and so on. I don't think that we have--they financed two big harbors here in Java, but also I don't remember exactly what harbors.

KAPUR: But it seems--the Bank's own reviews on the transmigration sort of give it mixed reviews. Would that be your sense also or . . .

AFIFF: Well, I know the grid system in many countries was [*inaudible*] Even in the IGGI it was mentioned as, “Oh, this colonization of Sumatra and Kalimantan by the Javanese,” you know, because we transmigrate the Javanese, the Balinese, also the South Sulawesi people--the areas with high density population to more . . .

I think if you want to develop an area and there is no people in it--we did this in Irian Jaya, for example; there is less than one per square kilometer, I think, and that is very low--you cannot develop them without people. There are no markets [*inaudible*] and we have to--and the regions are screaming. They will ask for it. Every time I go to Aceh, to Irian Jaya, to Sulawesi, they ask, “We need transmigrants.” But they are expensive. Yeah, they are expensive because we have to clear the land, build houses for them, and free the land from forest.

LEWIS: There is that--you said “clear the land.” There is an environmental question.

AFIFF: Yes, yes, of course, there is an environmental question also, cutting forests and so on. We are concerned about environmental impact also, so we made quite a lot of studies before we start on transmigration. Of course, the environmental impact is now more—what do you call it--questionable perhaps in the international world because everybody talk now about environment. We did already from ten years ago, is it, or fifteen, I don't know, when Emil Salim was, when we have a minister of environment.

LEWIS: Oh, you had? Fifteen years?

KAPUR: That's right. '78.

AFIFF: Since 1978, 1980. [all speaking at once]

LEWIS: That's the chap we talked with?

KAPUR: Yes.

LEWIS: He's a very enthusiastic minister of environment.

AFIFF: That was thirteen years ago, in other words. And the first environment conference was also in the '70s in Stockholm. There is when we start . . .

LEWIS: That was in '72.

AFIFF: And Emil was representing Indonesia at that time.

LEWIS: Oh, is that so? I see.

WEBB: So you were worrying about this before the World Bank?

AFIFF: No, the World Bank, you know--I'll have to be fair with them, because this Gloria--who is it--I forget the name. Gloria . . .

KAPUR: Gloria Davis?

AFIFF: Yes. She is--she is earlier in the transmigration.

KAPUR: She now heads the Asia technical environment.

LEWIS: But the Bank wasn't much into environment stuff in '78.

AFIFF: In '78.

LEWIS: I don't think so. There had been a big--of course, everybody went to the conference.

AFIFF: Who else is it in '78?

LEWIS: Who else was?

AFIFF: Yeah, except the World Bank.

LEWIS: Well, I think you may have been by yourself because in the early '70s there was a great concern about the environment in the United States, and they came out with a book called *Limits of Growth*. The whole planet was going to implode, sort of, because of environmental stress and population stress. It was very sound stuff except it was about a generation or two ahead of its time. It was sort of like—what am I trying to say?—shouting, what is it, shouting “Fire” ahead of time--crying “Wolf!” And so that whole wave of concern kind of subsided. People were worried about food. They were worried about population, and they were worried about equity in the '70s. And the environmental thing has been sort of incrementally gathering strength, I think, through the '80s, and this Gro Bruntland commission focused a lot of attention. Now it's for real. I mean, they—I don't think the Bank has been ahead of the team, I mean ahead of the wave on this. I think they've just sort of gone along with the fashion, don't you?

WEBB: Oh, yeah.

LEWIS: They haven't led, been a leader in this.

WEBB: I don't remember hearing the word . .

LEWIS: In the '70s?

WEBB: . . when I was in the government of Peru through '85.

AFIFF: No, but just a moment—you'll have to do some checking for me; I don't recall exactly. In the--almost in every loan agreement of a project, but starting when I don't know, there is always the requirement that the government will take care of the environmental impact or something like that.

LEWIS: Well, they tried to . . .

AFIFF: That is a . . .

KAPUR: That's about two years old. [all speaking at once]

AFIFF: No, no, the two years old is you have to, you need an environmental impact analysis before a project could be appraised. That is two years ago, but years ago it was a very general statement.

LEWIS: I bet you that's an influence of the U.S., and my little summary a moment ago neglected the fact that that first burst of attention created something called the Environmental Protection Agency in the United States and the Council of Environmental something-or-other, and we had therefore a requirement that all kinds of things had to pass muster for environmental impact in the U.S. And I'd bet you that that got sort of carried over to World Bank boilerplate, but it didn't really get much attention. It also lost of its meaning in the U.S. case for a while, but . . .

WEBB: You're a good lawyer for the Bank.

AFIFF: Am I? [*Laughter*] No, I have to be fair. I don't know. I know the Bank, as I said, since '68, you know, that's the thing, being the bureau chief here and then suddenly it seems to me the A-B-C. There's a lot of theologies in the Bank, that's for sure.

LEWIS: That's right. There are a lot. It's not a monolith.

KAPUR: Have you seen a shift in the theology?

AFIFF: What does--I don't see, believe the theology, you know, the way they work, procurement on consultants.

LEWIS: The policies they're pushing are not very . . .

AFIFF: Policies is--in my book policies are not theology; it is the procedures with them.

LEWIS: Okay, all right.

AFIFF: Procedures that say what we cannot do. For example, one of the procedures which I would like to do is why only 15 percent margin of preference to domestic industries? Why not 25 percent? Why don't give all domestic industries a better chance to participate? That's the Board [*of Executive Directors*]-once you said the Board, this is theology. [*Laughter*] But in policies we might, you know, we might agree with them. We might agree with them. We appreciate additional comments to our priorities and so on, but if not, then . . .

LEWIS: Were the policies they are favoring, have they been a strong continuity through these 20 years? Or do they, have they shifted?

AFIFF: Well, you know, it would be interesting for you if you can read the economic reports from year to year which we submitted to the IGGI, you see. But that is the projections, the projection what will happen next year: "We will have prudent borrowing; the next years you have less borrowing," and something like that, you know. It is always changing.

But because the consistency is, I said--I must say, although you say that to me, they have assisted us quite a lot. You know, in the most difficult years when we have the sharp decline of oil, we have the structural adjustment. We--our own decision to change, to deregulate--maybe the term is "to liberalize," but we don't like it; "deregulate" is better.

[Interruption]

AFIFF: They assisted us. And also they have an influence on bilateral countries, Japan. They can talk on our behalf with the Japanese, influence. You know, they have the analysis, the economic analysis of [*inaudible*] So if we submit for additional aid offered, if we submit it ourselves the lending country or aid-giving country might be questioning a lot of things. But if it is the World Bank, an international institution, it goes easier. But if they heard nothing, of course they don't like this, I mean the country report.

So they have been supporting us quite well, relatively in terms of structural adjustment loans, relative to the Japanese government, for example. They are small, what the World Bank did. But what they give, as an example, give confidence. Once the Bank has confidence to give a couple of hundred structural adjustment loans, others follow. That is why I consider them very helpful.

WEBB: We're not--I don't want you to misunderstand. We're not critics of the Bank.

AFIFF: No, no, I know.

WEBB: Just interested in understanding how it works.

One thing that's different here in Indonesia is the stability of the personnel in government here.

AFIFF: Yeah. Or the immobility! *[Laughter]*

WEBB: Your personnel is much more stable than the Bank's.

AFIFF: Oh, yes. That we've certainly had.

WEBB: How has that affected your relationship, the fact that they're always changing people?

AFIFF: Well, we have problems with the changes sometimes, you know.

WEBB: They forget things?

AFIFF: No, to a more difficult person, more, less--they don't trust us, less, for example, you know, something like that. Yeah, we have problems.

KAPUR: Do you have to teach them about Indonesia all over again?

AFIFF: How do you mean?

KAPUR: Each time there's a new person, do you have—do you feel you have to teach them or educate them about Indonesia all over again?

AFIFF: No, I think not in that sense. When I said—for example, if the vice president would change of the region *[inaudible]* change, if that changed, they might change policies because of it. They might change preferences, and they change personnel: persons we know each other, we trust each other, suddenly goes to other divisions in other areas. That is for us not a pleasant thing, but we are aware that that is Bank business, and so we adjust ourselves to that.

WEBB: Is that worse when it happens in Washington or here?

AFIFF: It depends on the person. *[Laughter]* It depends on the person. We don't have problems on this side so far.

WEBB: Very good relationship here.

AFIFF: Yes, very good.

LEWIS: Well, one case, at least, the man here moved to Washington, Russ [*Russell J.*] Cheetham, and he then took his sort of seniority with him.

AFIFF: Russ Cheetham was the most senior since Bernie Bell, of course.

LEWIS: Oh, yes.

AFIFF: He has direct access to . . .

LEWIS: Yeah, that's very true. But McNamara has—we've interviewed McNamara a number of times, and he's told us at some length about that case, of why he came here, and the way he instructed that Bernie should have a direct line to him and no one else should countermand his proposals.

AFIFF: I have--I'm sorry. I'm a little bit wrong in the INPRES lately. It is out of 11.2 trillion, 3.3 trillion is.

LEWIS: 3.3 out of 11.2?

AFIFF: Yeah.

LEWIS: That's about 30 percent.

AFIFF: And that is still about two percent of GDP.

KAPUR: It's about two percent.

LEWIS: Yeah, yeah.

KAPUR: Has it been growing?

AFIFF: Oh, yes.

KAPUR: It has.

AFIFF: This year's growth was 40 percent relative to . . .

WEBB: Do you use--are the INPRES funds used in practice for health and education?

AFIFF: Well, health and education, health, education.

WEBB: Family planning?

AFIFF: No, not family planning. Grants to the provincial governments, district governments, villages, and then reforestation for marginal lands, you know, for the—is this right: “marginal lands”?

LEWIS: Yes.

AFIFF: Well, you know, for making dams, small dams, and so on. So it's really--and then road construction, rural road construction, and provincial roads.

WEBB: But is all of that delegated to local governments?

AFIFF: Yes.

WEBB: All of that, including health and education?

AFIFF: Yes.

WEBB: They decide how to spend it?

AFIFF: Well, there is some directives, perhaps. In the area where population density is so, then you can build two health clinics and in the elementary schools, one.

WEBB: Because at the same time you have big central government health programs, World Bank programs on education and such.

AFIFF: But the World Bank education program does not go down to the elementary school. They start now. They start. No, our problem is, you know, we have the services—I mean, we have expanded the availability of elementary schools all over the country, but now we need to improve the quality, and that is where the World Bank has made a study and preparing the projects.

LEWIS: How many people do you employ in the INPRES program? Do you know?

AFIFF: These are regional government projects, but for 65,000 elementary schools, for example, the teachers, if you put 65,000, we have about 900,000. You know, that is with the—say, each school has six teachers.

LEWIS: Okay. [all speaking at once]

KAPUR: That's about 400,000.

LEWIS: 400,000.

AFIFF: Then they have watchmen each.

LEWIS: But you also must have quite a lot of construction in the works.

AFIFF: Oh, yes, in the rural roads.

LEWIS: Rural roads, yeah, yeah. Do you . .

AFIFF: Now, I said that this is all rupiah, but World Bank as well as Asian Development Bank and other members of the IGGI sometimes will have projects for rural roads development, district and kabupaten. And we use the local cost funding from this.

LEWIS: You use the . . .

AFIFF: You know, say, the World Bank financed rural roads. Rural roads is regional responsibility. They get funding from the central government through the INPRES, but so--and usually it is in civil works, the sharing of the project costs, say, 50/50, 50 percent World Bank, 50 percent government of Indonesia.

[End of Tape 1, Side A]

[Begin Tape 1, Side B]

AFIFF: The World Bank fund goes through central government, of course.

LEWIS: Right.

AFIFF: Because we lend from them, we have to administer them, and we have the payback system, but it is granted to the . . .

LEWIS: So this becomes part of the resources that the central government makes available through the . . .

AFIFF: Yes. The INPRES program.

LEWIS: The INPRES program. But the local people--if it's at the village level, then it's managed just in the same--those funds or those resources are merged with the other resources coming from the center. Right?

Well, this is quite an eye-opener, I think, to us, the scale of this INPRES program. I must say that it also puts a rather different face on your development strategy, I think, as compared to--I've been picking up the impression of a very stability-oriented set of people that want to keep their macro . .

AFIFF: We would like to do that, too, but that is sometimes more difficult, you know.
[Laughter]

LEWIS: Yeah, that's right.

AFIFF: We would like that, too. I think that is a condition of stability that--before we can do those things. Stability, the macro stability, is very important.

LEWIS: Oh, of course. Yeah, yeah, yeah.

AFIFF: That's why we—you know, we have in '83-'86 when we start deregulating, we start with devaluation of the currency. Then we start deregulating, and then our exports more or less start growing only after that.

KAPUR: Now that the Indonesian economy has done so much, has grown so much, matured much more and so on, does Indonesia need the World Bank now?

AFIFF: Oh, yes. You know, well, I'll tell you what. Our strategy has been always in borrowing--in foreign aid we need to borrow; our resources cannot carry all the requirements of development--is to be, to concentrate more on the soft and less concessional borrowing like the bilateral and then World Bank and export-related facilities. Late last year, for instance, we received pledges from the IGGI members for 4.75 billion dollars. That is not enough to build the infrastructure requirements to support the growth of the economy, like electricity, telecommunications and roads, for example, harbors as well. Domestically, our domestic funds is public savings is that, you know, and we would like to give it to INPRES and so on. So now we try to encourage private sector to participate in the infrastructure development. That was a year and a half ago decision; only today perhaps start the negotiations on power. So it takes a long time, and if you look at the infrastructure requirement alone, we need more and more foreign borrowing. And the parliament doesn't like it, you see, because, "Why do you have to borrow?" But if you want to build something, infrastructure, then if you don't have resources, you have to borrow. That's why we need the World Bank more—not only the World Bank, the Asian Development Bank.

KAPUR: Is it that right now it's the money from the World Bank that's more important than other parts?

AFIFF: What other parts?

KAPUR: You know, the policy advice, the technical assistance.

AFIFF: Well, for example, technical assistance, we asked the World Bank technical assistance how to set up and to safeguard private sector participation in the infrastructure development. We asked them and we received them, used them. So now there is a team working with the electric power company to set up what would be the best tariff, what would be the best agreement, what would be protection for the assets of the government.

LEWIS: These are World Bank personnel themselves?

AFIFF: No, they are consultants. They're paid--these are the technical assistance funds, and we [*inaudible*] with them; and even--for example, like, you know, I don't know whether you have heard, recently we have established a committee for debt management .

LEWIS: Debt management?

AFIFF: Mr. Radius [*Prawiro*] is the chairman. Because our commercial borrowing has been growing quite rapidly, and this is--we are worried about. That's why we put a brake on state-related projects; we have put a brake especially from Pertamina. Then we asked them, we asked the World Bank also advice on projections, balance of payments and so on and so forth. So there's still a dialogue on the macro affairs still with the resident staff, and since the Bank is responsible for preparing the economic reports in the IGGI, this dialogue has to be an ongoing thing.

LEWIS: Yeah.

AFIFF: And they have good suggestions, but there are also suggestions we cannot accept. We don't . . .

WEBB: Here in BAPPENAS [*Badan Perencanaan Pembangunan Nasional, National Development Planning Board*] do you have a feel--I imagine you're all the time worrying about the way projects are carried out within the government, the implementation. There are all these lovely plans to do this, this, this, and you allocate the money, and you give it ministries and so on, slowly, make mistakes, so on. There must be continuous frustration. Does the World Bank help you very much at that level?

AFIFF: Not much in these cases. But we have two bureaus, monitoring bureaus, for project implementation. One is the rupiah part, which doesn't have anything to do with the foreign aid, and the other is only foreign aid. This bureau of foreign aid have contacts regularly with the World Bank, Asian Development Bank, and other bilateral countries to monitor the disbursements because that is other than project performance. Disbursements we monitor because we were--five years ago or six years ago our disbursement level declined. So the president made a special team, and I was and I am still the chairman of that team, and they gave a lot of authority to push departments to speed up disbursements, to speed up contracts, to speed up tendering, to speed up everything.

But whether the project is implementing what is agreed upon between the aid givers and us is very difficult to monitor at that stage. We need to, yet . . .

But the Bank has this six months--how do you call it--they have this six months . .

WEBB: Supervision?

AFIFF: Supervision. They--after that they come to us: "The water charges for irrigation is not in place," or "Planting is not late," and so on, which we cannot see from disbursement level. Then we work on it. We have two bureaus and one deputy, under one deputy, working for monitoring implementation.

WEBB: Is this an important assistance for you, do you think?

AFIFF: Oh, real assistance. I don't . . .

WEBB: The supervision?

AFIFF: The supervision, yes.

WEBB: Yes. It is extra eyes.

AFIFF: Extra eyes.

WEBB: Yeah.

AFIFF: Even here, even in the disbursement level, we receive information from the Bank: "Mister BAPPENAS, this year's disbursement of all World Bank projects in August is so much." And we note that and compare it with last year's or other previous ones, and then if we saw a decline, why and so on and so forth.

WEBB: But I meant more generally. All of this depends on the efficiency, administrative efficiency, of all your directorates.

AFIFF: Exactly.

WEBB: Now all the usual problems, bureaucratic problems, does the Bank interaction with, at these lower levels . .

AFIFF: In BAPPENAS?

WEBB: No, in the government in general. [both speaking at once] Is that an important contribution, do you think? I mean, one looks at the number of Bank people. There are thousands of man-years coming and going, and they're going all over the government, all over Indonesia, talking all the time to government officials. Is that helping that? Or is it mostly for the Bank's own purposes, monitoring, control?

AFIFF: No, let's put it--there stages of projects, okay? Before the loan negotiations is the appraisals, the pre-appraisals, the appraisals and so, until it is negotiated. This is a different group of people. We have to provide them information and so on and so forth, to assess the feasibility of our project. This is different groups. Once it is negotiated and implemented, then you have that six months supervision start rolling, yeah? Start that supervision that report to us: "In the agreement you said within six months of the signing of the project of the agreement you will establish a supervision team or a reviewing team or something like that, but to date you haven't done that yet." Something like that, you know. That is the most simplest. Then when there's smaller progress, say in irrigation, "You haven't established the water charges," water fees, as it is called, or "Extension services are not there" [*inaudible*] Then this is to us a sign, and our bureaus, the two bureaus, will contact the executing agencies and ask them. Now, whether this is a burden or not, we don't feel it—I mean, BAPPENAS. I could not say, you know. You have to

ask the technical departments, I mean, the executing agencies.

LEWIS: Let me press you a little bit on this. In terms of the follow-up on the performance of the project and the monitoring of the performance of the project after its completion . .

AFIFF: Ah, that's different, after completion. Then you have this other bureau in the World Bank, how do you call it?

LEWIS: OED [*Operations Evaluation Department*].

AFIFF: OED, yeah.

LEWIS: But now my question is: that's the sort of thing that the government of Indonesia ought to be able to do for itself, huh?

AFIFF: We are trying, but we cannot do it yet.

LEWIS: You can't do it yet.

AFIFF: We are trying, but it's tough. You know, this two-bureau monitoring has been suggesting this. But there are a lot of projects, you know, and ours is small because we have to work together with the executing agencies to do that or OED. What's . . .

LEWIS: OED, Operations Evaluation Department.

AFIFF: That type of completion report of our projects, we should do it. I agree with you, but we are preparing it, but we haven't done it yet. Did I answer your question? [all speaking at once] I mean, you know, the supervision reviews might be a pain for the executing agency because they are the people who are facing the—not us, not BAPPENAS. BAPPENAS receives the report, among others.

WEBB: What I was thinking of is something a little more like this: take some government bureau, let's say rural health. I assume that every now and then there's a project, World Bank, that works through that directorate. And over five, ten years there's a continuous contact between maybe someone in the representative office here who's a health specialist and people in Washington who come in the health area. Sometimes they do a report; sometimes they just come and do a conversation. And then there are also people coming to look at projects. They sit at a table and they say, "Well, what are the projects?" And they talk, ideas come up, and experts from the Bank, consultants say, "No, why don't you—that didn't work very well in Sri Lanka. Why don't you think of this other way of doing this?" In other words, there is a continuous dialogue, not just at the macro level, planning, but at each—you know? Is that true?

AFIFF: Yes.

WEBB: Do you think that's important?

AFIFF: Well, you know, how our projects develop actually, like I said . .

WEBB: And policies, because sometimes it doesn't *[inaudible]*

AFIFF: Policy is usually not there at the lower levels. In my opinion the deputy . .

WEBB: Or detailed policies.

AFIFF: Such as, for example?

WEBB: Well, just the choices amongst health delivery systems. You have a lot of detailed decisions to make. Do we put this in charge of the village or at the next level? Do we use this kind of a--more technical decisions, really, but they're like policies in that sometimes they have . . . Do we charge or not charge? Those are the kinds of things.

AFIFF: Yeah, I do, I do. Okay. Let's see. I mean, question is how do we develop projects with Bank. First, of course, there's a dialogue like *[inaudible]* The first years we would like A, B, and seems to be agreement. Now our main interest is, in addition to the infrastructures, human resource development, well, improvement of quality of basic systems, quality, okay, of health and education. How do you develop this? And they start talking, you know, about the technical aspects. And it comes to a project design where policy implications are involved: How do you deal with remote areas? How do you improve the quality of an elementary school in Irian Jaya in a place of nowhere *[inaudible]* communication is very difficult and so on? How do you motivate the teachers? How do you train them better? How do you--curriculum so it is more suitable to the direct environment of the area. Based on these things we develop during that assessment. And then it comes up to a higher level. What are the implications? Budget--how do we channel the budget? How do we channel the funds in a remote area where there is no banking system, there is no *[inaudible]* This is being discussed. And then we come to a project design agreement. Sometimes it is in the pipeline of the previous project; for example, Health I is a study to improve the health system in a certain area.

WEBB: If the Bank said, "No more loans for Indonesia. We don't have any more—we don't want to lend any more money to Indonesia," but you need to continue investing, would you hire them as consultants?

AFIFF: Are they consultants, the Bank?

WEBB: No!

LEWIS: Hypothetical question! *[Laughter]*

AFIFF: They are not consultants, yeah. But as I said, you know, there are good people among them, but there are also--if they are not happy . . .

WEBB: Yeah, okay.

LEWIS: But they do really get a hearing because they do bring some money, huh, in part?

AFIFF: Yeah, but we don't always agree with the World Bank.

LEWIS: Oh, no, no, no. I know that. I know that. No, I don't think you're being led around by the nose at all. *[Laughter]*

WEBB: It looks more the other way, I think. *[Laughter]*

AFIFF: In several projects we do more. This INPRES is one of them. But others we say, "No, we don't go there."

KAPUR: What was the reason that they wanted a project and you didn't?

AFIFF: Well, for example, they would like to improve civil service.

LEWIS: Civil service, huh.

AFIFF: But linked to it is autonomy, giving autonomy to all gubenors to district levels. I consider that that is domestic. Not a single consultant outside Indonesia could do the job because it has very psychological implications. There is also an institutional which is very difficult to be, and I'm afraid that they will come with crazy ideas. The consultants they hired, they asked groups how to improve the autonomy of the regions.

LEWIS: Any possibility that they could hire an Indonesian consultant?

AFIFF: They could, they could have, but then you have to run into this damn theology: a file with rank and so on or something like that of procurement.

But the other hand, training civil servants, okay. We have already a world of training through indirect, you know, sources, government sources and others, of the civil service-- sorry, of the regional civil service. So we say, "No." They are very unhappy about it. Of course, the division chief who is preparing the project is not happy.

WEBB: This was a recent?

AFIFF: Very recent. For example, assistance to the *[inaudible]* almost a cabinet level committee for autonomy. It's not their place. We say, "No, we don't want." *[inaudible]*

LEWIS: Yeah, that's the—there's a problem with a very sophisticated organization that has been like chartered, confined to a certain range of subject matter, makes basically economic technical engineering, now finds reason, I think quite rightly, to worry about

the quality of governance as being very important to this, but they don't have a lot of expertise in terms of governmental structures and politics. They can be kind of a bull in a china shop, I guess.

AFIFF: What else are you--I don't know what you need--but we sometimes we don't want, don't do the projects.

KAPUR: Has that been increasing?

AFIFF: Not too many, really, not too many, but because had this developed together, and this part I don't--when it comes, as I said, at the lower level, as you said, technical--I receive a protest from my colleague ministers who would like to continue with that project.

WEBB: Yeah, yeah.

AFIFF: I say no because this is not only—"If you want really a technical assistance to your office, then I will try to find it from a bilateral country, which is on a technical assistance form, but not a World Bank [*inaudible*] concessional loans."

WEBB: The Bank now is also trying much harder to go down to lower levels, grassroots groups, to find ways of lending that are based in a more decentralized and detailed way, particularly in the areas of population, delivery, health and education and so on. One of the things they're doing is dealing more with NGOs [*non-governmental organizations*] because NGOs, they think, are good at [both speaking at once]

AFIFF: They're scared of NGOs.

LEWIS: They're scared . . .

AFIFF: In Washington because they don't want to finance hydropower dams now.

WEBB: There are very mixed feelings, yeah. But my question was . . .

AFIFF: Well, you have developing of countries through hydropower.

LEWIS: They've spent a lot on it.

WEBB: Do you think the Bank can do things like that, or should they stick to big projects, infrastructure?

AFIFF: No. It is our priority, actually, that foreign borrowing should basically be more for infrastructure projects, and that will be the role of the government of Indonesia because we don't want industry [*inaudible*] infrastructure development. Well, of course we have this obligation of poverty alleviation of pockets in Indonesia that's not truly relieved by growth. How do you do that? And then our sources is better because we are

more flexible. I mean, you know, we don't have that type of theology. We are more flexible, changing it. Okay, if you design a project is not, somewhere in North Sulawesi or something, it's not suitable, then we can change it, where with aid givers sometimes you have to go to the capital for changes of the design of a project.

WEBB: This includes other donors as well?

AFIFF: Yeah. So my view is actually--our view--we can do better social and poverty alleviation projects than any other donor, but the other members of the IGGI is obligated by parliament and also perhaps in the Bank by your Board of Directors, to do this type of loans, to do this type of projects.

LEWIS: Or in McNamara's time by the president.

AFIFF: Huh?

LEWIS: In McNamara's time it was by order of the president that they were pushing very hard on poverty-related projects. And they're doing that some now, you know.

WEBB: But that creates a conflict that you were dealing with.

AFIFF: Yes. You know, in the earlier years when we have a transmigration project, we want to build a house for a transmigrant, and the design has to be approved by the central office, the design of a very simple house! If we need a yard bigger than that, I mean for *[inaudible]* for example, the family, we have to go upstairs—or changing the window from the left to the . . . ! That was back in the early '70s. It's changed now. *[Laughter]*

WEBB: That was the World Bank?

AFIFF: That's why I insist actually more authorities in the *[inaudible]* here, and I insist that not only to the World Bank but also to the ADB *[Asian Development Bank]*.

KAPUR: Is there a difference between the two institutions, ADB and World Bank, as far as you are concerned?

AFIFF: Not much.

LEWIS: The theology is about the same.

AFIFF: The theology is about the same, but the Bank, World Bank is more active in policy dialogue rather than Asian Bank.

LEWIS: Asian Bank is a smaller . . .

AFIFF: The Asian Development Bank *[inaudible]* Yeah, it is smaller also. Loans also smaller.

KAPUR: But if you had an infrastructure project, it would not really make a difference to you if you went to the World Bank or the ADB?

AFIFF: Well, now we start co-financing both with big power *[inaudible]*

Well, I have [all speaking at once] I hope I satisfied your answers.

LEWIS: It's very, very . .

[End of Tape 1, Side B]

[End of interview]