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Transcript of interview with

RAVI GULHATI

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Interview by: 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.
[Begin Tape 1, Side A]¹

GULHATI: . . is something to be done, to look at, you know, how the Central American common market had worked during the years it was quite successful in many respects, and what were the causes of the breakdown that was then in process, and were there any measures . .

WEBB: This was when? In ‘71?

GULHATI: ‘71. And were there any measures could be taken to resuscitate. I think CABEI [Central American Bank for Economic Integration] was interested in this because they felt that they might be the instrument for resuscitation by dealing with some of the uneven benefits distribution from this common market, but just like, you remember, the East African Development Bank, which was servicing the East African community, was used to tilt towards Tanzania and Uganda in their lending . .

WEBB: Uh-huh.

GULHATI: . . because Kenya was supposed to have got all the benefits of the East African common market. So I think CABEI wanted to have somebody explore whether such a similar role could be played by CABEI, but that was all my . .

WEBB: Then you were still working in development finance?

GULHATI: Yeah. Before I came to the Development Economics Department, yeah, yeah. But it was one of the most interesting missions I’ve--I led that mission. It was a very interesting mission, but I didn't get, you know—it was my only exposure to, once and for all—five week exposure.

WEBB: Yeah. We don't think of it as Latin America in any case. [Laughter]

GULHATI: Yes, that's right.

WEBB: All these people there speaking Dutch and French and English--because the Latin islands are really separate countries. They're not usually included in the Caribbean initiative, in other words Cuba, Dominican Republic.

GULHATI: Well, the countries I went to were really members of the common market which excluded Dominican Republic and Cuba. They were Honduras, Guatemala, Nicaragua . .

WEBB: Oh, I see.


¹Original transcript by Brookings Institution World Bank history project; original insertions are in [ ]. Insertions added by World Bank Group Archives are in italics in / /. The first section of the interview was recorded in a restaurant, with background noise and interruptions for food service. The interview then moved to an outside area where airplane noise interrupted the discussion. The last few minutes were recorded inside a building with no ambient noise.
WEBB: I thought you were talking about the islands.

GULHATI: No, it was these five countries.

WEBB: Yeah, yeah, yeah. [inaudible]

GULHATI: Panama never became a member of the common market, and Mexico was not a member.

WEBB: You know, one story that I thought you could help us on is this whole poverty thing because it was just about the time you came into development economics and it was just about the time that it was being taken up on. *Redistribution with Growth* came out about then, didn’t it?

GULHATI: Yeah, it came out in ’73, I think.

WEBB: ’73?

GULHATI: As far as I recall, yeah. I mean, the publication was ‘73; but the whole process of conversion, if you like, was taking place right from, I think, probably about ’70, started about ’70. I remember going to a number of lectures which Mahbub ul-Haq had organized which were—he invited a lot of well-known figures to the Bank to discuss with McNamara the need for direct intervention of the government at the project level in order to deal with poverty alleviation and income redistribution. And that was the beginning of this whole intellectual conversion process.

WEBB: Was Mahbub sort of the general put in charge of this campaign?

GULHATI: Yeah, Mahbub was very much at the center of that.

WEBB: Was [Hollis B.] Chenery there then?

GULHATI: Chenery was there, yeah. Mahbub was working for Chenery then.

WEBB: Chenery himself, was he taking . . .

GULHATI: Yes, he was very intrigued right from the beginning, yeah.

WEBB: Yeah?

GULHATI: Yeah. And I think that—I don't know exactly the--it would be interesting to find out by talking to Chenery, Hollis, what, where did he come into this picture. Was it [Robert S.] McNamara who urged him on or whether he urged McNamara on, or what was the interconnection connection between Haq, Chenery and McNamara in this regard?

WEBB: It was those three, I take it?
GULHATI: Those three, yeah. And then later on lots of other people came in like Monty [Montague] Yudelman and Kim [Edward V.K.] Jaycox was later on board [inaudible]

KAPUR: Did Ernie [Ernest] Stern come in on this?

GULHATI: No, I don't think he was really in the middle of this, no, I don’t think so. Not at the intellectual level, I don’t think.

KAPUR: Right.

WEBB: Do you remember some of the early reactions inside the Bank?

GULHATI: Oh, yeah, yeah, sure. [Laughter]

WEBB: I would imagine! How was it seen?

GULHATI: It was seen as an entirely illegitimate activity for the Bank to be interested in and--that was one. And secondly, because it was felt that, you know, the Bank’s mandate was to provide finance for projects and mainly to assure efficiency and growth, the whole idea that something directly should be done in the design of the project to cater to the poor or to bring about changes in income distribution was not regarded as part of the Bank's mandate. I guess it’s right because the Articles of Agreement don't talk about distribution. They only talk about economic development and growth--growth more than anything else--and efficiency. They talk a lot about efficiency.

And later, of course, people said, also some other people said that the right way for a country to deal with its poverty problem was through trickle-down and that the main thing was to increase the pie and not to redistribute it, all those things which are part of the conventional classical position--not classical, actually, neo-classical position. I suppose the classical economists were quite concerned with income distribution.

WEBB: Were they?

GULHATI: Yeah. This is the neo-classical phase, which . . .

[Interruption for food to be served]

WEBB: Did something of a debate, something that could be called a debate, ever develop on this? Were there open discussions or just a lot of sort of grumbling?

GULHATI: Well, grumbling. I think McNamara was not good at promoting debate. And one of the interesting things for me was that in these seminars that I mentioned McNamara participated but he didn't speak a single word. He participated as a listener, did not interact with any of these distinguished visitors. He may have in the privacy of his room--I don't know; I don't know about that--but certainly at the seminars he did not open his mouth.

WEBB: Were these large?
GULHATI: No, not very large seminars. They were seminars at which--yeah, 15, 20 people.

WEBB: They would be directors?

GULHATI: Yeah, they would be the top brass of the Bank at the time.

KAPUR: His secretary told me that he would usually meet these people over lunch.

GULHATI: I see. So there was no public debate, anyway. That’s my memory.

WEBB: Do you remember some of the more, some of the stronger negative reactions that may have had some weight?

GULHATI: Well, you know, a person like Bill [William] Diamond felt that this was really the Bank going the wrong way. A chap like [I. Peter M.] Cargill, who was quite a major figure at the time. But none of these people articulated their grievances or their--they just felt uncomfortable.

WEBB: Yeah. Resigned?

GULHATI: They never resigned from the Bank, but they felt resigned.

WEBB: They felt resigned, yeah, yeah.

GULHATI: Well, that’s actually a characteristic of the Bank as an institution, in my view, that it's not good at promoting debate.

WEBB: The president has a lot of power.

GULHATI: I have always felt that--well, I suppose that the Bank has passed through a number of phases in terms of how it makes economic policy. In the early stage, say the stage of Eugene Black, there was, I mean, hardly any professional inputs into policymaking at all, and no forum for discussion of policy except perhaps, you know, in the privacy of Black's office. [Robert L.] Garner and Black would go into a huddle and come out with a policy, or Garner and [J. Burke] Knapp and Black would, but . . .

WEBB: Where were you working then?

GULHATI: In the--I joined the Bank when Black was president in what was then regarded as a—it was called the Economic Staff. It consisted of about 25 people. It used at one time to be headed by [Paul W.] Rosenstein-Rodan.

WEBB: When you were there?

GULHATI: No. He had left by the time I arrived. When I arrived the head of this was a man called Leonard Rist, who was the son of this famous French historian, Charles Rist.
But, I mean, subsequently--McNamara's style was quite a bit different in the sense that he did establish some institutional machinery for writing of policy papers and creating a policy council and whatnot, which Mahbub was the secretary of, as I remember. But even, I think, in my view, even under his regime there was very little open discussion, although I think that the professional input certainly increased quite a lot in the conversation of those who ultimately made policy.

WEBB: Do you think that there was a real debate in the sense that McNamara was talking to people and digesting different views and coming to conclusions, but he was open to some extent so that the [inaudible] served the purpose to some extent?

GULHATI: I think he must have been personally very open to have . . .

WEBB: To have invited them?

GULHATI: Right, and to have gone to the extent of making his Nairobi speech in 1973 and then the whole thing which followed. I mean, that showed an openness because clearly he didn't come to the Bank with those ideas. When he came to the Bank--in 1968, was it; yeah, 1968--I think his main emphasis at that point was increase resource transfer to promote growth.

WEBB: Uh-huh.

GULHATI: And he was, I think, responsible more than anybody else for expanding the scale of Bank operations. I don't know whether that stands up statistically.

WEBB: It does, it does. When we talked to him he said once, two or three times, I think—he said that everything that he did over the time that he was in the Bank he planned out in the first few months. I never took him up on that, particularly with respect to poverty.

GULHATI: That's a surprising statement. I'd be surprised by that, whether that could be supported.

KAPUR: There's some--a little bit of support but not much--because he had given this Montreal speech, remember, in 1966 . .

GULHATI: What did he say in that?

KAPUR: . . which was the new meaning of security, whereby, you know, he said that the root cause of—it was in the context of American security policy—was really poverty.

GULHATI: What?

KAPUR: Is poverty.

GULHATI: Yeah, but poverty how? Poverty by expanding GDP, not poverty by direct intervention.

Ravi Gulhati
July 9, 1991 - Verbatim
KAPUR: It was still a sort of trickle-down.

GULHATI: It was trickle-down. I mean he—I mean as far as I can remember, McNamara before the Nairobi speech—which was when, you know, he went public on his conversion—until then he was in the trickle-down camp. Whether he admitted it or not, he was in the trickle-down camp. And his idea of promoting American security, which he propounded in Montreal, was, you know, that, you know, American security was not being protected by Vietnam and the armed conflict and so on, but that long before situations develop to the point in which military intervention was necessary to preserve security, that American authorities ought to be doing more to promote . .

KAPUR: Economic well-being.

GULHATI: . . growth, growth and thereby increase the overall standard of living and GDP of developing countries.

WEBB: Now, how did this idea on development—do you have any sense of that? So that between ‘69, ‘70, ‘71 it developed, was there—were there external influences on the Bank?

GULHATI: I think it was basically the Bank trying to catch up with the kinds of things that—what was the name of this man who was the head of the Institute of Development Studies in Sussex?

WEBB: Seers?

GULHATI: Dudley Seers. At least, let me put it like this: as a practicing economist, I first became aware of something really wrong with the way in which I thought about it, growth and development, was when I first listened to Dudley Seers in, I think it was in 1968 when he made a speech at an SRD [Society for Research Development] conference in Delhi in which he said that increase in GDP is not a good indicator of progress. And he spelled out, you know, the whole business of who the increases in GDP were accruing to and so on, their position in the income pyramid and so on and suggesting that trickle-down is not a good, effective process.

Meanwhile also there was at the same time, I think—and Mahbub was particularly responsible this; he had been writing about employment quite a lot and pointing out that while GDP growth had been quite rapid in developing countries, that employment had in fact not increased at a commensurate pace and that there was a vast backlog building up and so on, underemployment or unemployment and so on and suggesting that trickle-down is not a good, effective process.

WEBB: That was Seers' language, too, wasn't it?

GULHATI: Yeah, it was a combination of the two.

WEBB: He was doing those ILO [International Labour Organisation] missions.

GULHATI: Right, right.
KAPUR: And at the same time in ‘69 you had the [Lester B.] Pearson Commission and his own friendship with Barbara Ward, McNamara's. Do you have a sense of how that might have . . .

GULHATI: Uh, well, the Pearson Commission report? You know, I was on the staff of the Pearson Commission.

WEBB: Oh, were you!

GULHATI: There was no emphasis in the Pearson Commission report on trying to do something about poverty alleviation other than by expanding GDP. It was basically a report all under the rubric of trickle-down. There was no . . .

Now, Barbara Ward—now you've mentioned Barbara Ward. I don't know what the intellectual impact of Barbara Ward was on McNamara. Barbara Ward took the initiative, after the Pearson Commission report was published, to organize a conference in Columbia University basically to promote the message of the Pearson Commission. So from that I conclude that at least at that time she wasn't very keen on the direction to which the project level promotes poverty alleviation because that’s not part of the Pearson Commission report.

KAPUR: I see.

WEBB: The way I see the redistribution with growth and the Bank's early poverty programs is as trickle-down with the added kind of very human, trickle-down with a human face, as it were, sort of with a lot more concern now, sort of explicit rhetorical concern about force, but you're essentially sticking to your same scheme except that you're now making the argument which the Bank seems to really stick to, certainly McNamara, that you can achieve both.

GULHATI: That's right, that’s right. They never went to the question of active redistribution for growth. They basically argued, “No trade-offs. If you do it right, there will be no trade-offs. And the way to really do it right is to do it through new investment and not through existing capital structure. You redesign new investments.”

KAPUR: But is that in a sense a reflection as much of McNamara's own mindset whereby he could never see that there were trade-offs? I mean, say his whole thing on quality of projects versus the quantity of lending. For him you could do, you know, more of both, or at least maintain one and increase the other. Whatever happened, you know, there are no trade-offs or you could do the thing without having trade-offs. And is this another example of that, his own way of thinking rather than . . .

GULHATI: Yeah, he didn't want to give up his earlier emphasis on high investment, on promoting growth, but what he was saying was that you can—but what he admitted, I guess, in this period was that to just promote growth as he was doing from 1968 onwards at the World Bank and don't pay much attention to the design of projects, then you aren’t going to have the kind of benefits percolating down to the poor people. That concern was taken aboard, but not at the expense of promoting growth. It was in addition to promoting growth—you start paying attention to the design of projects--and the insistence that there would never be a trade-off.
WEBB: He’s quite fierce about that, isn’t he?

GULHATI: Mmm. Well, the Bank, I mean, continues to be. I mean, I find the latest quality report also says that. That's very interesting that . . .

WEBB: You're right. It's a very redistribution of growth kind of line.

KAPUR: But it is why they've always been very careful about things like land reform. But also is it true to say that even in the design of projects it was not the poorest for whom these projects . . .

GULHATI: Yeah. Not the poorest, because the distribution for landless workers were not [inaudible]

WEBB: That's right, yeah.

KAPUR: It was the smallholder farmer, the peasant small farmer, for whom at least the rural development strategy was. In South Asia, at least, the landless seems to have been . . .

WEBB: No solution, barring land reform.

GULHATI: The Bank had no solution for landless workers, yeah, that’s what I’m saying, yeah.

KAPUR: And because you’ve ruled out land reform, then . . .

WEBB: Yeah. Exactly.

KAPUR: How were the operations people seen? So here’s all this ferment happening in the intellectual sort of quarters of the Bank, and you know there are the operations people doing their own stuff. How was . . .

GULHATI: I think the operations people by and large, let's say—let's talk about the people in the projects department, the engineers, the agronomists, the educationists, and so on. By and large, as far as I'm aware, very little effort was made to bring them on board, and they felt kind of anxious about this new development. They didn't quite know how they fitted into this or what was it going to mean for them.

Of course, the early response to McNamara's great big initiative was to relabel projects quite a lot, to quite some considerable extent. I think the commitment to designing poverty alleviation projects, or what were called the new rural development projects, developed over a much longer period. I mean, let's say, if the policy initiative was announced in 1973, it was not ‘til a couple of years later that project staff began to be affected by this new spirit in some genuine way. And of course there were still lots of people who were fighting it, who felt that this was not for them, you know, that the Bank was going soft, and the Bank was very—there was always that segment of the project staff who continued to resist this initiative.

Ravi Gulhati
July 9, 1991 - Verbatim
WEBB: I remember being sent on a mission as a consultant in 1974 to Honduras. It was an agricultural development mission headed by, I thought, a very good officer, a Canadian, an old-time agronomist. And it was a large-ish mission, people in irrigation and every little aspect of the picture was represented by a development technician, and they hired me as a sort of “poverty man.” [Laughter]

GULHATI: That was typical!

WEBB: They didn't know what to do with me. I had no idea what I was supposed to do. It was a really frustrating experience for me. I felt it was a big personal failure. All I managed to do was a bit of mapping by regions and so on. But I had imagined that I would be in long discussions with the irrigation director, discussing with him, “What are the options here? How do we find irrigation, you know?” And the same with the cattlemaster: “Well, is this a good idea or not from the point of view of the very poor? What kind of cattle?” That's what I imagined. But these people had no sense, absolutely no sense at all--none of them--not the head nor any of the consultants.

GULHATI: Well, I can give you an example much later in the period. I went in 1977 on a--I wasn't part of the mission; I accompanied a mission to Malawi which was going to do a rural development project. I think--poverty had taken place in some earlier projects, rural development projects, and this was going to be an extension, or sort of another look, next tranche for money was going to be made available for this program. And the mandate of the mission was to review past experience and, in the light of that, to decide what the next step should be in this process. And again there was a very large mission, lots of people, extension specialists, credit specialists, I think even a highway specialist, a feeder road specialist, all of that. And I tagged along as--I was then the chief economist; I had just become chief economist of the Africa region--and I tagged along just to find out, find my, you know, what was happening at the project level. And this was, what, now four years after McNamara's initiative.

KAPUR: It was, when, ‘77?

GULHATI: Yes, ‘77. They did not look at the questions which now appear--well, even at that time were, you know, fairly obvious, namely the relationship between estates and smallholders, the fact that prices of smallholders were being determined by ADMARC, which was the marketing agency, and kept at levels much lower than the prices for the same products which were available to the estates, and the fact that land was being transferred from smallholders to estates in various ways and quantity of land available for smallholders was becoming a problem, and a scarcity problem was developing. All these issues didn't find any discussion in either the mission's work or in the report.

WEBB: Did you become aware of that at that time?

GULHATI: Yeah, I was aware of it. I mean, it wasn’t--I was not the leader of the mission. I was just an observer. I did raise these points, but they felt that this was outside their mandate.

WEBB: Yeah.
KAPUR: And the CPPs [country program papers] would not reflect these?

GULHATI: I actually did take up the question of the prices on the grounds that this was just—not only was it bad from the redistributive point of view, but it was bad just from an efficiency point of view and that in fact farmers were shifting land from various export crops to maize. Maize at that time happened to be in great surplus, and maize prices were held up by the marketing authority at fairly high levels, higher than international prices. So I did raise that problem quite a lot, but I didn't get anywhere because people felt that this was too sensitive a subject to take up with the government of Malawi, and that, again, they felt that this was outside project work. See, this is well before structural adjustment lending came along. These kinds of issues were, didn't receive support or didn’t receive attention--didn't receive attention in the sense of doing something about it. They were discussed. I mean, this issue--I insisted that this issue be discussed in the report, but nothing happened.

WEBB: This was when, ‘77?

GULHATI: Yes.

KAPUR: But would you speculate that the very sort of inhibition on the part of the Bank in bringing up these issues at that time made sort of structural adjustment issues sort of inevitable down the line?

GULHATI: Yeah, of course. That’s right.

KAPUR: I mean, sort of postponing the inevitable?

GULHATI: Yeah, that's right. I'm sure that's right. I mean, we should have attended to this price issue for smallholders in 1977. There's no question about it, just from a pure efficiency point of view. But we didn't feel that--let's put it like this: I mean, I felt but project people who were leading with missions didn’t feel that this was something they could accommodate, that this was something they could deal with, or that they would get support at higher levels in the management hierarchy.

KAPUR: But if you—at that time you must have been looking at lots of CPPs.

GULHATI: Mm-hmm.

KAPUR: And was it your sense that most of them would basically not treat these issues?

GULHATI: Well, CPPs, I think, were beginning to address these issues. Well, let me put it like this: when I came to the Africa region in 1977, the quality of analytical work was quite bad. It was very small, also, and unlike Latin America or Asian countries where there was a lot of work done outside the Bank on these countries and so the Bank staff could get away with doing a little bit but borrowing a great deal from outside, in Africa this is just not the case. I mean, nobody was doing any work on any of these countries. There wasn't any local capacity for analytical work, and such work as had been done by the colonial authorities had long since finished, and so
there were just basic analytical lacunae. So there wasn't a great deal of sort of well-argued and well-articulated and well-researched propositions. People had their views. You can go and talk to this guy and he will tell you this, and then you go talk to that guy and tell you that.

For example, in Malawi, I remember in 1977, it--believe it or not--was a subject of a great deal of debate about whether farmers, small farmers, actually responded to higher prices or not. Many of the people in Malawi said that they did not; in fact, you know, you should keep prices low; that's why you get backward-sloping supply curves. It's very much the kind of premise on the basis of which people thought about prices. Nobody had done any econometric work to demonstrate that in fact smallholders were responsive to prices. So you were at that stage of . . .

**KAPUR:** And the fact that by that time there was already well-documented econometric work in India and elsewhere as far as price was concerned.

**GULHATI:** Right, right. It was just the relative backwardness in the, these people.

**KAPUR:** Well, this throws the whole thing into sort of rural poverty issues. When did this, the urban poverty issues, when did they . .

**GULHATI:** Well, the urban poverty issue came to the fore as far as the Bank was concerned two years later, 1975, McNamara's speech of '75. Our department was very much in the center of that at that time. We did a lot of the analytical work leading up to McNamara's speech. Do you remember, we formed a task force?

**WEBB:** Yes. Oh, yes.

**GULHATI:** There was Doug [Douglas H.] Keare and Mike [Michael A.] Cohen and Tony [Anthony A.] Churchill, who was not then in our department, but he participated from the other department.

**WEBB:** Urban projects, yeah.

**GULHATI:** Yeah. And . . .

**KAPUR:** It’s curious. I read somewhere, like McNamara was talking to some reporter on development, and I mean he says there that his first experience with real poverty was, it was in an urban context. I was just wondering if that had anything to do with it. It actually was when he was in the U.S. Army and he was stationed in India, in Calcutta, at the time of the great Bengal famine.

**GULHATI:** Oh, McNamara was?

**KAPUR:** Yeah. So you had—you know, this was that great Bengal famine in ’42, led to hundreds of thousands, about a hundred thousand, more, deaths, and so he describes this very graphically, you know, the bodies he sees everywhere and so on and so forth. I'm just curious as to that image in his mind, this is he was talking about it many years down the road.
GULHATI: I have no idea what the genesis of his thinking was on that, but I mean I do remember that, you know, McNamara was a great one for getting staff work done for his annual meeting speech. And it must have been perhaps ten or eleven months before his speech, perhaps soon after 1974 speech, ‘74 annual meeting speech in September, and soon after, maybe perhaps in November or December of 1974, he asked Chenery to suggest themes for his next annual meeting speech. Of course Chenery asked us to propose various things. And we proposed, I don’t know, three or four subjects of which one was—I mean it was obvious! He had talked about rural poor in Nairobi, so why not talk about urban poor, since poor are located in both locations, and certainly in Latin America and other countries they were much more urban than they were rural. So whether he had wanted to speak on this in any event or whether he was, whether he picked up on this list that we sent him, I don't know, but he seized on this subject of urban poor, and he got Hollis and me to promise him that we would organize a task force and collect all the materials and draft his speech and so on.

WEBB: That task force was working from ’74 or early ’75?

GULHATI: No, I think the task force didn't get organized ‘til sometime early in ’75, maybe February.

WEBB: I joined the Bank July 1st, ’75.

GULHATI: Did you?

WEBB: Yeah. That was my first assignment, to help with that task force.

GULHATI: Did you? Did you work with that task force?

WEBB: Yeah. I think I attended some of the meetings, was asked to help with some of the papers. And I remember on a lot of [inaudible] thinking that Jaycox and Churchill were all gung-ho on doing urban projects, spending more money, and Mark [Leiserson] and some of the other people were talking more about policies.

[Interruption for food service]

GULHATI: Well, that was the time when I think lots of people felt that, particularly people in the operations part of the Bank, felt that they hadn't had enough time to digest the 1973 initiative, and here was another presidential command and I guess . . .

[End Tape 1, Side A]
[Begin Tape 1, Side B]

GULHATI: . . had to, I mean he never sort of consulted anybody in terms of whether it was time now to shift gear and talk about urban poor or whether--he was still mastering the implementation of his earlier initiative. I remember people like Ernie Stern, who was then the—Ernie Stern was then the--what was he? He had become vice president for Asia at this time, South Asia, and Stanley Please at that time was director of the program department in East Africa. And then this paper came out on the urban poor, McNamara's target-setting, you know: you must do so much by so
much and so on and so forth. Of course, these targets were never very well
differentiated by region. After all, in Asia and Africa problems were very rural and
not very urban, but the way in which this whole steamroller of machinery went
around trying to set up monitoring and targets and so on and so on didn't differentiate
sufficiently between one kind of country and another kind of country or one region
and another region. So there's a big kind of adverse reaction from people like Ernie
Stern and Stanley Please. I remember these two particularly, who felt that this was
really far too--it was premature, it was not relevant for their regions, it was across-the-
board thinking and not sufficiently tailored to local circumstances, and it created a big
protest [inaudible]

Then everybody calmed down and did whatever had to be done to supply these
numbers which had to be collected by--I don't know who was appointed in Jaycox's
department to provide monitoring reports to McNamara about how well his initiative
was being implemented.

You guys were right about the policy-making, the policy style of McNamara.

**KAPUR:** I remember, I think if I'm not mistaken, last year in September there was
this conference on adjustment lending, and I think you had come for it. And if you
look at the whole shift in the ’70s towards poverty and in the ’80s on the sort of
structural adjustment lending--both, if you see the way internally it happened, the
policymaking for these two rather major changes in the Bank, do you see some
similarities and differences?

**GULHATI:** Well, the similarity is in the style of policy-making. I mean, for
example, in the whole discussion of structural adjustment lending policy, again I think
the hierarchical and the coercive aspects were more prominent than the building of a
consensus in the staff of the Bank, which was just the same as in the earlier issues.
That's the main point.

**KAPUR:** Very much a top down.

**GULHATI:** Very much a top down, although I think in both cases--that what's good
about both these cases—is that there was a lot more technical professional input into
preparing the policy, but there wasn't enough done to get people on board. Again, I
think when the structural adjustment lending policy was announced, the project staff
was up in an uproar because they felt somehow missed out, they felt this was all very
macro, and what was it going to mean for projects? Nobody quite spent the time to
talk about this and discuss, figure out how projects design would be affected for non-
SAL [structural adjustment lending] lending and what would be the contribution of
the project staff into SAL lending. I mean, later on, of course, it developed that
project staff had to do a lot in SAL lending and also in SECAL [sector adjustment
lending] lending. They had a major part to play, but in the initial, immediately after
the announcement in March 1980 of the structural adjustment lending program, great
misgiving and concern on the part of project staff.

**KAPUR:** But even intellectually--I was sort of curious to see the oral histories of
Stanley Please and Ben [Benjamin B.] King, and they have completely opposite views
on adjustment lending. And sort of both of them were very much part of the Bank’s sort of intellectual—so I guess if there was not a consensus intellectually, then . . .

GULHATI: Please and who?

KAPUR: Ben King.

GULHATI: Oh, yeah.

KAPUR: But it’s your sense that there was a consensus, at least intellectually, on adjustment lending, as distinctly from the operations?

GULHATI: Well, you know, it's a hard question that you're asking because, you know, how does one define the people who have to agree in order to say there was an intellectual consensus? You’d regard all projects people as being non-intellectuals! [Laughter]

KAPUR: No, no, in the sense of “intellectual” I mean the sort of the research part rather than the operating part.

GULHATI: I don't think this was an initiative from the research side. The structural adjustment lending was not something that was urged upon senior management by the researchers. It was very much a brainchild of Ernie Stern.

KAPUR: And Stanley Please, also.

GULHATI: And Stanley was working with Ernie Stern on this. Ernie was at that time the operations vice president and . . .

WEBB: Was there still a policy staff then? Were they active in this?

KAPUR: Mahbub was still there.

WEBB: Mahbub was still there?

KAPUR: Yeah, Mahbub left in ‘81 after [Alden W.] Clausen was on board. No, he left in ‘82.

WEBB: What was Mahbub's position on adjustment?

KAPUR: I don't know. I'd have to . . .

GULHATI: I don't remember.

KAPUR: I guess we have to look at the PC [president’s council] minutes on adjustment lending at that time.

WEBB: Yeah.
GULHATI: Well, there is the—and intellectually I'm very curious about this—you know, there is the Japanese model of policymaking which people always talk about in terms of—Japanese agonize over any new decision, apparently take a long time to make any new decision, go back and forth and discuss it and re-discuss it and get lots of people involved and then they make a decision. And everybody is very annoyed by it, it takes so long. And then people claim that once decisions are made in Japan, they are implemented very rapidly. There are not many problems in terms of either resistance to a decision or lack of training, lack of trained people to carry it out or lack of orientation or lack of communication. All these problems are much less in—apparently, this is what people talk—in Japan; whereas, if you take, you know, other styles of decision-making, you probably can take decisions very quickly, but on the other hand the problems begin when the implementation is to be done. And so it's a big issue of about, you know, how, what is the process? How much more time should be invested before the decision is made?

WEBB: I guess McNamara's whole culture of how to manage an institution--I had a sense that that was what he was primarily, extremely able at managing large institutions.

GULHATI: Extremely able?

WEBB: Able, yeah.

GULHATI: How'd you come to that conclusion? I mean, that's the subject of some scrutiny, I think.

WEBB: Well, “able” maybe is not the right word because I don't mean that he took it in the right direction. I mean he was just very capable of making it go in some direction, in the direction he wanted.

GULHATI: Lots of personal, how shall I say . .

WEBB: It's what he did in the Defense Department, and they say that he's the only defense minister who ever really stood up to, managed to get around the generals.

GULHATI: That's right. That is somehow . .

WEBB: And at the Ford Motor Company he managed to make a difference, they say. In other words, few people can really make a difference.

KAPUR: But isn't that the thing that we've heard, that he was a great leader but a poor manager and the distinction between the two?

WEBB: Yeah, sure, sure, sure, well . .

KAPUR: Because, I mean, the management in the sense is sort of the nitty-gritty of getting people on board, you know, talking to staff, you know, making yourself partly a politician, being amiable. He lacked all those things. He would never meet most of the staff, you know, appeared to be very aloof, had a small circle around him. And yet, of course, his leadership was amazing.
GULHATI: But again, you see, now one has, one can question in light of what has happened since then.

KAPUR: Yeah. Right.

GULHATI: Look at his initiative on rural development, how has it actually turned out. Say, if you examine Africa, his initiative has not turned out very well at all in terms of the Bank's involvement in rural development. I don't know whether you've seen the OED's [Operations Evaluation Department] report on the statistical analysis—quite overwhelmingly critical of what the Bank did in Africa. And many of the ideas which were then sprouted have now been kind of more or less—backtracked from in certain aspects. For example, this whole idea of an intensive resource effort in highly, well-defined areas, now they're completely going away from that, saying that, “No, no, we must build up the national extension services, we must build up, strengthen the rural credit in its entirety, not just in the project context. We must have a research and extension system which is nationwide not project-centered.” So they are completely sort of backtracking from the special rural development project concept which McNamara and Yudelman and the Bank embraced after the 1973 speech.

Now, you can treat this in two ways: one, that this is learning from experience and so that’s damned good. On the other hand you can say, well, the policy initiative was not very well prepared. It was put into effect too soon. You should have thought about this, and after all, nothing that is now—all the criticisms which are now being made about these special rural development projects are not all that kind of . . .

WEBB: No, they were foreseeable.

GULHATI: They are foreseeable; they are all foreseeable! So why didn't we foresee them? We are supposed to have a good, you know, analytical capacity, a good research capacity.

WEBB: Yeah.

GULHATI: Or take structural adjustment lending. I suppose one can argue that now we have learned that, you know, we have--in the process of doing structural adjustment, the investment levels have gone too low. Now we must pay attention to investment levels. Well, that was pretty obvious from the beginning. We could have tried to design for it in the sense that a lot more effort should have been made in trying to mobilize resources once governments were prepared to undertake the reforms.

WEBB: A lot of the reasons that structural adjustment programs aren’t working now, it’s being discovered, were also . . .

GULHATI: Foreseeable.

WEBB: I don't think you've found the ground yet [inaudible]
GULHATI: Well, you know, it's very interesting that when the draft was being circulated for the structural adjustment lending policy paper—it was to go to the Board [of Executive Directors] and long before that when it was being discussed in various earlier incarnations, a lot of us were saying at that time that this whole idea that we can fix the structural adjustment problems of Africa in three to five years was for the birds. We said so in so many words and in writing, but it was completely—it was neglected.

KAPUR: But you know, the strange thing about the structural adjustment paper which went to the Board, the first one, is that, one, it's a very small paper; it's barely six pages, which for a major policy shift is amazing. But the other striking thing is that the rationale given to the Board why we should get into it is--of the six pages, five and a half pages is the duration in the external environment and only half a page is the situation within the countries. That's what I found curious because I--my impression was that, you know, that the countries have, quote, “screwed up,” unquote, and therefore need to be—you know, they have to really change internal policies. But here, officially to the Board the whole thing seems to have been the outside world. Exogenous, not endogenous to the country.

WEBB: Yeah, it was seen somewhat as compensatory finance. It sounds like that to me, the reason in the background. I remember . . .

GULHATI: Well, it was compensatory finance but with a difference: compensatory finance insisting on policy change.

WEBB: Yeah.

GULHATI: Because compensatory finance, as you know, was initiated by the [International Monetary] Fund, triggered off some money if your exports decline for reasons beyond your control. But here what was being said was--and you're right. I mean, the emphasis was on the second oil crisis.

KAPUR: In '79.

GULHATI: Yes, '79-'80. The second oil crisis. That was the point of departure for the structural adjustment lending . .

KAPUR: Right.

GULHATI: . . policy paper. But unlike the first oil price increase, when you recall after the first oil price increase the reaction was to set up an oil facility at the IMF, getting the Saudis and others to contribute to this. And it was a low conditionality design. People had to demonstrate that they were importing oil, oil prices had risen, so they could get some money. But by the time the second oil price increase came about, both the Bank and the Fund had decided--and even more basically the U.S. and the U.K. had decided--that this kind of compensatory financing was not going to be a solution like it was thought to be in the first oil crisis, that it had to be high conditionality. Therefore the Fund did not resuscitate the oil facility after the second oil crisis. Instead they went in for--well, they just kept their own instruments. They

Ravi Gulhati
July 9, 1991 - Verbatim
didn't invent any new instrument. They just used the standbys and the extended Fund facilities.

WEBB: But the adjustment lending had conditionality but it had a flavor, too, of the compensation thinking.

GULHATI: Yeah. You're right. I mean, in that sense he's right that the emphasis was on deterioration in the external situation.

WEBB: And this evolved considerably to now. Now it's . .

GULHATI: Yes, yes. Now it's much more . .

WEBB: . . now it's 99 percent the public policy and it’s seen . .

KAPUR: . . as responsible for where they are.

But I thought, if you recall our interview with Ernie Stern as well as with McNamara on this issue, both of them said that the way they saw it then was almost entirely in terms of endogenous poor policies, and therefore seeing it from their interviews and what we have on record from what they said and what we have on record for what went to the Board . .

GULHATI: They’re quite different.

KAPUR: . . the emphasis is very, very different. Now, this might be that they are seeing it ex poste, but at least . .

WEBB: Or it was their way of selling it.

KAPUR: Of selling it, exactly, exactly.

GULHATI: I think it was the latter.

KAPUR: I think it's what you’re saying, Richard.

WEBB: You think it was selling?

KAPUR: A way of selling it, yeah.

GULHATI: You have to remember that in the Bank particularly, the Board was never invited to discuss seriously country policy . .

KAPUR: Then.

GULHATI: . . then. So, you know, to expect that the Board would welcome a document which now placed a lot of emphasis on deficiencies in domestic policies would be a complete sort of nonstarter. There is no history of discussion on that subject.

Ravi Gulhati
July 9, 1991 - Verbatim
WEBB: Right.

GULHATI: On the other hand, it was obvious to everybody that oil prices had increased and was going to have pervasive impacts.

KAPUR: But do you think—is there is any sense that the oil price increase provided a convenient entry point, that there were people at the top who had become frustrated with the policies of the countries and their inabilities to influence those and that this came in at a convenient time and was seized upon? I mean, projects were always a poor instrument to impose conditionality; there was a growing sense that things were not working and that the Bank had few instruments and tools to do that and here comes a good exogenous reason?

GULHATI: Yeah, I think you will have to go back into the history of program lending.

KAPUR: Right.

GULHATI: And I suppose that was always—that could have been high conditionality, but in fact was not.

KAPUR: Exactly.

GULHATI: And I know that, say, in the period in the ‘70s there were a number of discussions of program lending which I participated in, and the Bank never really could get to grips with this question of whether it wanted conditionality or didn't want conditionality of a macro sort in the context of program lending. I think there this was an example in which—I think this is a good example, but it's a hypothesis, it's a hypothesis that I am putting forward. It bears examination. The reason why we could never have a good discussion of program lending, I hypothesize, was because the people who were using this as an instrument for lending, mainly South Asia part of the Bank, were always defending program lending, and they didn't want any conditionality because that would make their life very difficult with Government of India and Pakistan and so on, which were regarded then as, you know, very formidable clients. And the analytical part of the Bank, the policy part of the Bank, the research part of the Bank were not really effective. They could have—they never had the ear of the senior management. So to personify what I've just said, Cargill prevented a good discussion of program lending, and Chenery was weak and he wasn't able to bring this about.

KAPUR: When Ben King sort of takes issue—this is, I'm talking of the oral histories—he sort of says that, “Look what Stanley Please did.” He effectively said that projects are poor instruments to impose conditionalties and policy changes. Stanley Please says that's just not true, that whenever I wanted to in a context, wanted to do it, he could have done it, but in the ‘70s as we were driven by targets of money pushing you could not. Either you had to meet that or--because you could not say, “Look, in that case this project is not going through for the next three years unless you change your conditions,” which is what you could do in the ‘60s. And therefore we, in his words, we ourselves undermined the conditionality of our project lending in the ‘70s. And in a sense the instrument was--an instrument which was available earlier.
was undermined by us. That's the way he takes issue with structural adjustment lending.

WEBB: That was King's argument.

KAPUR: Right. Ben King's argument.

GULHATI: King argued that you could in fact be effective at the project level with conditionality.

KAPUR: Right, right, that you could have--that the Bank was doing it earlier in the '60s and he was doing it himself.

GULHATI: King argues that you could get a government to accept a condition regarding macro policy and sector policy when you were lending at the project level?

KAPUR: Sector policy.

GULHATI: I think he's very weak on that. My god! I happened to work for a department, the DFC [Development Finance Corporation] department, which had the most extraordinary difficulties of this kind. We were--I joined that department right after the Pearson Commission. That was in 1969. And at that time it was very clear that most of the DFC lending was going for high protection in very inefficient industries, but we never felt that it was—or let's put it like this: I mean, while we were the technical department, appraising the loans and so on, any question of conditionality, et cetera, would have to be discussed by the area departments, regions, at the time. I remember discussing this in the context of a number of countries with the area departments and getting no hearing whatsoever. They felt that it was completely inappropriate to discuss trade policy of a country when you were doing DFC lending. It was an absolute no-no.

Or take interest rate policy, which was also heavily, intimately connected with the DFC lending. After all DFC lending rates were geared to the controlled interest rate structure in these countries, and in many cases they were far too low, and they were negative and so on. And in fact it was a part of the Bank’s policy to try to raise interest rates in the context of DFC lending, but the success rate in getting that done was very . . .

KAPUR: But the Bank never—but I guess the point that Ben King makes is, and we've heard from others in the context of Latin America, is that there was--you would use the track that, “Look, you don't do it. That's fine. No DFC lending [inaudible].”

GULHATI: That's where it came into conflict with the resource transfer objective of the Bank.

KAPUR: Right, so his point is that, “Look, we've put to ourselves a resource transfer objective and given it greater priority then policy objectives, and that undermined our policy objectives.”

Ravi Gulhati
July 9, 1991 - Verbatim
GULHATI:  Yeah, but that also argument also applies to SAL lending and SECAL lending. I mean, if we have resource transfer objectives, then we can't be very insistent on what countries do or don't do on macro sector policies. I mean, maybe the difference between then and now is that at that time, in the ‘70s, countries had a lot of recourse to lending from outside the Bank; now they don't.

KAPUR:  Right.

GULHATI:  So the Bank leverage is more . .

WEBB:  Is greater now.

GULHATI:  . . is greater because of the absence of alternative sources of lending.

KAPUR:  Right. Sort of the monopoly power.

[Interruption to pay restaurant bill]

GULHATI:  These are very interesting questions. I don't how you're going to--logically you're going to deal with it. Obviously, you're going to hear a whole variety of views. They're all going to be very different, all over the map on any of these subjects. And you don't have a research department, so you're not supposed to get to the--you're just supposed to just write a history of the Bank.

WEBB:  It will turn on which day we happen to write it on. [Laughter]

KAPUR:  I think it depends on our histories as well. I'm absolutely sure, because I—you know, the stuff I give to John and Richard—you know, there are just zillions of things on any topic, and obviously I'm picking and choosing. You know, to an extent what they read depends on what I give them.

GULHATI:  But, I mean, why--your object is not to decide what is right and what is wrong. Your object is to describe what happened in an interesting way, in a way which is, gives people a sense of the flavor of this institution. I mean, that’s what—so if you can just document how much diversity there is.

KAPUR:  Right. That itself is . .

GULHATI:  That in itself is interesting, and it goes back to the question of decision-making in the Bank and how the Bank is organized for decision-making.

WEBB:  Yeah.

KAPUR:  Before we came, we were talking of that, Richard and me, but in a different sense.

WEBB:  Yeah.

KAPUR:  It's something very little is known how, I guess also when we heard from [Barber B.] Conable how he was chosen as president. You know, sort of two or three
people sit down in a corner and say, “Yeah,” you know. And one wonders, at least in the context of certain countries in which the Bank was involved, what decisions have been taken in that ad hoc fashion.

WEBB: It's all mysteries; it’s full of mysteries. [Laughter] It's like you say: it's a matter of being able to pull out some facts and make some reasonably sensible . . .

KAPUR: But the one thing I guess--which Richard wants also--relative to Edward Mason/Robert E. Asher, is more numbers we’ll have, sort of more quantitative, not in the sense of regression or anything, but, say, the Bank wasn’t serious about population; in McNamara’s speeches as well one sees how big lending actually took place, so numbers in that sense.

GULHATI: Yeah, but then it’s very difficult to make sense of those numbers. You see, I mean, that’s what Richard has to face up to in the sense that . . .

WEBB: Numbers won't carry you very far.

GULHATI: Yeah, because, you know, if the Bank is lending in little amounts for population, that doesn’t mean that McNamara's instructions are being supported or whether there are good reasons why the Bank is lending little for population. Who else is lending for population? Is there a demand for population loans? And do countries want to borrow for population work when there are lots of grants being made for population? All sorts of—it’s very difficult to interpret.

[Interruption for restaurant bill]

WEBB: Well, there was a time when--to come back to the poverty business—when there was a kind of attempt at a new formulation or a somewhat different formulation in the form of the basic needs. Do you remember that?

GULHATI: Yeah, but I don't think it really came to pass, you know. It was this work that was done in Mahbub's shop by Paul Streeten and Frances Stewart and others. Paul Isenman wrote something on Sri Lanka basic needs for that, and then Shahid J. Burki and Streeten and others wrote something on basic needs strategy or something. But it was never, at least in my mind, it was never distinct from the anti-poverty kind of emphasis.

WEBB: It really wasn't allowed to be, was it? I mean, the Bank could not have digested that. Could it have digested that, some sort of giving money away without being able to justify to itself that this was also, at the same time, a highly efficient system?

GULHATI: Yeah, but this is the—basic needs people were doing that. They were how—they were saying, first of all, that, you know, basic needs means building human capital and that's good for growth and there are no trade-offs and countries which have had a basic needs strategy have done very well, Sri Lanka, Kerala and so on.
WEBB: Was it all just an argument for more socialist managers? Lending in education and health? Is that what it boils down to?

GULHATI: As I understand it, basic needs strategy was saying that more emphasis should be given to education and health and housing maybe.

KAPUR: Shelter.

GULHATI: Shelter, yeah.

WEBB: I thought there was an element, a kind of rights approach there, that countries should recognize certain rights and spend. Maybe the Bank didn't want to get involved but sort of--it could lead you toward this, that policy [inaudible] Maybe you could justify it to yourself . . .

GULHATI: Well, you know, there are two aspects to this. One is that the basic needs, satisfaction of basic needs is a good rationale for foreign aid. Some people claim that, you know, foreign aid ought to be justified on the basis that this leads to satisfaction of basic needs of people who are relatively underprivileged. Then there's another basic needs kind of story which is that forget about foreign aid, it's just a good strategy for development. Whether we finance it externally or not, in any long-term sense development is about building human capital. You do that through good education and health and adequate shelter and so on, and that these are not consumption goods, but they're really investment goods.

KAPUR: The irony which I was just seeing—there’s a new paper just going to the President's Council on human resource development, the World Bank strategy, is that the fastest growing component of Bank lending is for this area. And it jumped up from less than three percent to now twelve percent and is going up to fifteen percent by the next three, four years.

GULHATI: In which area?

KAPUR: This area. Population, health, nutrition, and education. The very ingredients of basic needs. But it's happening in the early '90s, and it's essentially the same thing that you're saying. The words you're using are exactly the same words, “human capital,” and so on. This is the rationale they've been given, and it is the one that is by far the fastest growing area of Bank lending.

WEBB: It is. The thing is, I mean to me the way I've always thought of basic needs assessment is that if you take it seriously you can justify a lot of subsidies and things that the Bank normally doesn't do at all--in fact, they're opposing all the time. If you just stick to the facts of growth argument, then it's okay, but it will be twenty years or thirty years before you are really attending basic needs in the sense of relieving or ameliorating extreme poverty. In the meantime--I'm sorry, I guess it helps quicker. But it wasn't really argued out that way at all, was it, in the Bank, as a more short-term, absolute poverty safety net, redistributive (to some extent) case.

GULHATI: Well, actually, I didn't feel that the intellectual effort that was made on this was anywhere near comparable to the poverty or subsequently the structural
adjustment. I think it was a pretty low-gear operation . .

WEBB: Minor.

GULHATI: . . in the Bank and wasn't well thought out in the Bank.

And right in the middle of this was the famous ILO [International Labor Organization] conference on basic needs, also in 1975, where the ILO tried to rise and shine with its strategy for employment and basic needs. That got the Bank a little bit sort of, you know, “This is not our flag.”

WEBB: How was the ILO seen from the Bank?

GULHATI: As a wishy-washy, intellectually weak, do-gooder argument in the sense that it was felt in the Bank they were not looking at the macroeconomics of this at all and they were paying no attention to the financial aspects and the resource mobilization aspects. They were just saying, “It's a good thing to spend on basic needs.” That was all that it amounted to. But actually, as a matter of fact, I've never seen a good, tightly-argued piece which discusses the macro aspects of the basic needs strategy. Maybe I haven't read the right things, but I . . .

KAPUR: But do you think the ILO influenced the Bank in especially thinking of sort of the employment, of creating aspects of poverty strategies?

GULHATI: I don't think so. You know, I think that—I mean Mark and Richard and all of these people were writing lots of things on this, long time before that. When Raj Krishna--remember Raj Krishna? I mean, his whole big thing was employment. He was with us in that department.

WEBB: Oh, I didn't know he was there at that time.

GULHATI: Yeah, he was very prominent. Of course, before that Mahbub had written quite a lot. So I don't think that the ILO did very much.

WEBB: Hyatt [phonetic] was also at ILO, wasn't he, before, or no?

GULHATI: I didn't know that.

Keith Griffin was actually the main architect of this. This guy, what's his name, this Dutchman who’s now the head of the development economics at OECD [Organization for Economic Cooperation and Development]?

KAPUR: Emmerij. Louis Emmerij.

GULHATI: Louis Emmerij. Louis Emmerij was the head of the development economics department. He and Keith Griffin were the main actors on the whole employment--and the good thing about it was that they--there was this pot of money given for research.
WEBB: They had been pushing this in the earlier reports. The ILO [all talking at once]

GULHATI: Oh, yeah, sure. They did all this. These were all—the [Hans W.] Singer mission, Singer’s work on Kenya.

WEBB: That's right.

GULHATI: And, what was it, Dudley Seers went to Colombia?

WEBB: And there was one on Sri Lanka.

KAPUR: Right.

GULHATI: On Sri Lanka.

KAPUR: My sense was that in terms of that the ILO came out before the Bank on employment, at least officially.

GULHATI: Yes, yes. That's true.

KAPUR: I mean, it's a bit like Mahbub ul-Haq's UNDP [United Nations Development Program] Human Development Report. Although the Bank has been going into it a lot . .

[End Tape 1, Side B]
[Begin Tape 2, Side A]

KAPUR: . . when the Bank itself in its last year’s poverty report, the WDR [World Development Report], it’s sort of you can see it being caught in its own, on the one hand saying that the socialist countries--it ranks countries on what they've done for poverty alleviation and so Cuba and so on get very high marks, but then--but of course their macro policies are very sort of counter all the Bank has been preaching in the ‘80s, so it sort of is caught as to, you know, whether they are good boys or bad boys. [Laughter] And, you know, because on the one hand if you're only speaking of poverty, it's difficult not to admit that the best boys are those, if that's your only criteria. So then they have to make this thing: however, growth matters.

GULHATI: Well, they have to take the cost of the sustainability out . .

KAPUR: Right.

GULHATI: . . because they're saying that everything is collapsing in Cuba . .

KAPUR: Right.

GULHATI: . . so it’s no good. [Laughter]

KAPUR: Right.
GULHATI: So you've got to have sustained poverty alleviation. For that you require growth. [Laughter]

KAPUR: Right.

WEBB: So we have also [inaudible] already a new ecology-weighted . . .

KAPUR: Sustainability on that.

GULHATI: And now the gender-sensitive human resources or human resources index--have you seen that? It's in the second volume . .

KAPUR: Of?

GULHATI: Of Haq.

KAPUR: Of Haq, right.

WEBB: Oh, I hadn't seen it.

GULHATI: Gender-sensitive human resources index.

KAPUR: We have to talk to the people in what's called W-I-D in the Bank, see it’s very—WID, Women in Development. You know, there's a whole group. There's a division chief and so on. But it's a bit like now how projects are reclassified to show that rural or that Bank projects take into account this Women in Development component, at least that's what I've been told, second hand stories. So that if it's--that, say, as used to be the case in the ‘70s, that X percent of the beneficiaries ought to be the poor, so you will determine [inaudible] half the beneficiaries. So now you go and say that, “Look, 50 percent of the beneficiaries are women,” but of course in any geographical area 50 percent of the people are women in any case. [Laughter]

So it's, you know, it's not that difficult, but you know this the thing of reclassification, and the same thing with environment, you know. You sort of staple it at the end rather than in-build it, but this is again what people say. It's unclear as--and I guess it's also a question of these things take time to get into the consciousness.

WEBB: You have had UNDP reports?

KAPUR: We have one of them, yeah. I don't have the new one, no.

WEBB: We’ll have to get that, yeah. Call up Mahbub’s office, maybe.

KAPUR: Right, and get a free one, get a freebie.

You know he is--we’re organizing something at Princeton for John's [Lewis] retirement at the end of September, a one-day-long sort of seminar, half of which will be on India. It's sort of around themes on his work in India and the other half on sort of on a very broad sense the role of the outsider in development. You know, sort of major, two major themes of John's. There were six or seven small groups, four or five
main speakers, and then sort of the audience. And we’ve asked him, and he will be speaking at it.

GULHATI: You know, one thing which you might want to look at--let's walk back to the apartment. I think it's very cold here.

[Interruption and relocation]

WEBB: The Bank has—it’s shifted the DFCs between the IFC [International Finance Corporation] and the Bank. And I don’t know--at one time it was a very big part of the scene in the Bank's lending.

GULHATI: It used to be about 10, 12 percent of Bank lending.

WEBB: Yeah. I don't know. I did a study of agricultural credits experience in Latin America a few years ago, a quickie thing for the Inter-American Development Bank, and my own sense was that this has worked very poorly. The whole experience of agricultural development credit has been very poor, in Latin America at least. And I think I was reflecting what a lot of other people were, had been studying and saying, because I didn't go out and do original work. I suppose the World Bank--a lot of that has become part of the World Bank’s own view of this, so that now you have a less optimistic view of development credits. How do you see that in the Bank, in the way the Bank . . .

GULHATI: Well, you know, the agricultural credit operations are not part of the [inaudible] of the Bank. They've never been included.

WEBB: Oh, I see what you mean. Yeah, yeah, yeah.

GULHATI: So when the Bank's says DFC, or nowadays they’re called IFC, industrial finance companies . .

KAPUR: They still refer to it as DFC in the annual, in the numbers at least.

GULHATI: . . when the Bank says DFCs, they are not talking about agriculture credit operations which would be classified under agriculture. They are saying intermediary organizations, financial intermediary operating at the national level or regional level within countries who are basically lending to manufacturing, and some of them do things other than manufacturing, including tourism in some cases or mining or estate agriculture to some extent. But agricultural credit operations are a distinct category.

My view of the development banks is that--now, you want to know my view of what the development banks as such or my view about the World Bank and development banks?

WEBB: The World Bank.

GULHATI: The World Bank.
WEBB: Well, both, really.

GULHATI: Yeah. Well, World Bank--let's start with the World Bank. I mean, the main architect of this is [William] Diamond, you know. He was the one took the—if there's one person at the staff level who's sort of identified with development banks: Bill Diamond. He is actually a historian, but he somehow got interested in development banks and wrote about them. And in the early stages they were viewed very much as private sector entities; the Bank did not support publicly-owned development banks in the early period. And [George D.] Woods first came to the World Bank as a consultant to help the Bank establish a number of these DFCs, and he did that in India and in Pakistan and a number of other places.

Now, Diamond's philosophy was to set up autonomous institutions who would, you know, have a bit of a viability and a life of their own and so on, but in fact development banks in that period, ‘60s, let's say, turned out to be highly dependent on either government support or support from the World Bank or other, AID [U.S. Agency for International Development] and such, so they never became viable capital market institutions in terms of financially autonomous entities. A few of them were, but most of them were not. And they became very highly suspect, I think, in the ‘70s because in addition to being kind of intermediary channels through which the World Bank could pass money, they were of course the main source of financing import substitution, with no questions being asked about trade policy, so that was an embarrassment. Later on it became an embarrassment of some sort.

But I was hired, by the way, I was hired to go to the DFC department after I’d finished the Pearson Commission because there was a feeling that this department had no economic orientation, it’s entirely run on kind of financial, on the basis of financial analysis. And I was appointed—I suppose McNamara had something to do with this; he wanted this department to get more sensitive to the economic issues raised by DFC lending--so I was hired as the chief economist, very much as a token because there was no other economist in the whole department.

WEBB: Really? The one and only! [Laughter]

GULHATI: Very much like you going on that mission to be the poverty man. I was, you know, the economic totem of this department. And over a period of time I persuaded Diamond and the staff to accept some economic analysis of projects that were financed by DFCs, although this was much resisted by the staff here in Washington and much resisted by the development banks, but they kind of went along. I don't know how much importance they gave the economic screening.

WEBB: This would be an economic analysis of the DFCs or of their lending?

GULHATI: No, of their lending. There is no way in which you can do an economic analysis of a financial intermediary, but--at least I didn't know of any--but we said that as part of the project appraisal procedures of development banks they should also look at projects (or what the World Bank called sub-projects) from an economic point of view in addition to the engineering and the financial and the administrative management. They were all doing that. They were looking at each sub-project from an engineering point of view, a financial point of view, management, administrative

Ravi Gulhati
July 9, 1991 - Verbatim
point of view, but we introduced another dimension to project analysis of DFCs. But I
don't think it was very relevant in the sense that as long as the macro policies were not
changed, trade regime was not changed, interest rate structures were not changed, all
you could say is that if a project—if economic analysis was done properly and if the
projects were screened, then they belonged to that small sub-set which were not
distorted by the macro policy signatures so that was good.

But I tried to suggest to these people that they should do economic analysis also in
order to be sensitive to when these sub-projects might go sour, in the sense that if, for
example, financial returns on an industrial project depended heavily on a particular
tariff rate, then the DFC ought to be aware of this so that if there was some talk about
changing that tariff, they would know ahead of time that this is going to affect very
badly the financial fortunes of the sub-project and maybe make it difficult for them to
repay the DFC. So I tried to [laughter] put it in this kind of, you know . . .

WEBB: You created a conflict of interest within the World Bank. The DFC would be
for the tariff!

GULHATI: Yeah, right, right.

So I felt that--then later on these DFCs were used by the World Bank to promote its
interest in small enterprises. Again, I don't know how successfully they did this. This
is somewhat beyond my time in that department. But the idea was, you know, that the
World Bank itself, being so far away, could not really deal with small enterprises
which required very small loans. And it would be very high-cost loans if the World
Bank started directly to lend to small enterprises, so we needed an intermediary. And
since we had these relationships with these institutions, we tried to promote, the Bank
tried to promote policy changes within DFCs to get them to pay more attention to
financing small enterprise and promoting small enterprise on the grounds that they
had more, better employment effects than—and so on. I guess lots of people have
claimed that they have done wonders, but I—again, you better look at that and see
whether that's true or not.

WEBB: That grew out of, a lot of that must, came at the time that you were in DED
[Development Economics Department]. .

GULHATI: Yeah, that's right.

WEBB: . . as part of the urban poverty . . .

GULHATI: Correct, as part of the urban poverty initiative and so on.

Now, in the ‘80s they have been a disaster area, the DFCs, because quite a few of
them—well, as you know, the foreign exchange rates of DFC loans in some cases
rested with DFC, but in most cases rested with sub-borrowers. DFC just passed on the
foreign exchange rate. So when the exchange rate changes took place in Latin
America or Africa or somewhere, sub-borrowers went broke. They couldn't repay the
DFCs. The DFCs developed large arrears and became, you know, very illiquid and
bankrupt. Some collapsed. Some had to be given budgetary support. So they were in a
pretty bad shape. Throughout the ‘80s, they’ve been in very bad shape.
WEBB: Do you remember a number of cases where DFCs became self-financing?

KAPUR: Hasn't the IDBI done reasonably well?

GULHATI: The Industrial Development Bank of India?

KAPUR: Yeah. Or less unsuccessful [inaudible]

GULHATI: I'm not very much in touch with them in the last ten, fifteen years. I don't know, really. But at the time that I was actively involved, no, they were very much a government kind of thing, government-subsidized money. I know recently from press reports that they have been highly politicized, both ICICI [Industrial Credit and Investment Corporation of India] and IDBI, and accused of giving bad loans to those who supported Rajiv Gandhi or something, those industrialists who supported Rajiv Gandhi, all sort of things like that. So I don't know whether that's true or not, but this is what the press says.

I once wrote an article about development banks, which argued that these institutions, apart from their lending functions, could be a very good instrument for monitoring how economic policy worked and in bringing to bear concrete field experience on policy-making if the government were to use them that way. After all, they are—I mean, you know, lots of people argue, I think, with a great deal of truth that policy-making in planning commissions or in industry ministries is somewhat divorced from reality because they're so removed. And the whole business of how to get feedback from the private sector about what the present policy framework is doing and what impact it's having has been, has always been kind of a troublesome area. What I had argued was that if the government were interested in this, they could develop this capacity of institution, these institutions, because they were really directly in touch with borrowers and they could see how impact of the country's—what the ramifications of the present policy regime was in different sectors of, say, the industrial sector or—as between large and small industry and so on like this. They could be made to participate in a very useful way in the policy evaluation, the policy-making processes. But I don't believe that this has happened anywhere, as far as I can tell.

WEBB: That's an interesting thought, you know.

GULHATI: And I also felt that, by the way, that this project analysis and economics of project analysis would provide this information because it would bring out, you know, immediately what was causing the—I mean, which instruments were causing what distortions and how much magnitude, what the magnitude of these distortions was, again, in different branches of industry.

WEBB: You'd have to make sure that the bankers had a big input into the planners. I think about this a lot because in Peru we've had three decades of different presidents, not one of which ever had two minutes' worth of business experience in his life, and just now acquired a new president, Japanese, who's a businessman of sorts.
GULHATI: [Alberto K.] Fujimori! He's doing quite well, isn't he, from press reports, although I don't know what you think.

WEBB: I think his program is good, and his character is good for the moment, I think. I don't know whether he'll survive or not, but . . .

GULHATI: He’s being rather arbitrary and giving a lot of decrees. I know he's not using the parliament or something.

WEBB: Yeah, just decrees, yeah.

But the point is that I think much of the disaster of the last three decades in Peru has to do with the fact that, starting with the president but then also the people under him, most of the ministers, most of the congressmen and so on, for them business was simply a completely separate reality. They had no--the president would choose people who were like him, architects or generals or someone who simply has nothing to do with his whole previous career, and that went right down to--the planners, almost by definition, are always people who have no contact with the business world. It’s even a bit of a . . .

GULHATI: Well, it is an endemic problem. Actually, it is one of the major organizational problems any country faces in terms of the relationships between the government and the private sector. [airplane noise] Now, it’s argued, is it not, that one reason for the success of Japan and Korea, people say, is that this relationship works well. We don't know exactly how it works, but it seems to work well. Government is supportive.

WEBB: Mexico is another example, and Indonesia, I guess, yeah.

GULHATI: In India it works very badly. Government is kind of always looked upon as the--government used to at least look upon the private sector as kind of an adversary, you know: “They have to be controlled, these guys. They make unnecessary profit.” And so it's always a kind of a professorial and adversarial role that the government played.

KAPUR: Including on our advisory board we have an architect of that vision, erstwhile, I. G. Patel.

GULHATI: I.G. That's right; that’s right.

KAPUR: He really believes strongly that no exchange will [inaudible]

WEBB: Too moralistic, the Indian government, I guess.

KAPUR: I think it's the Indian character in government that preaches to everyone.

WEBB: Where this has succeeded, I think you’ve had--two things I think you find in those places. All those places are very stable regimes and a lot of corruption. You can develop a good environment for the relationship.

Ravi Gulhati
July 9, 1991 - Verbatim
KAPUR: It's paradoxical because where I. G. Patel comes from, that community is amongst the most successful Indian businessmen throughout the world.

WEBB: Really?

GULHATI: That's true, yeah.

KAPUR: Gujaratis, the East African Indians, they're all from his community.

WEBB: Is the problem in India you don't have enough corruption?

KAPUR: No, that is not the problem! [Laughter]

I mean, my father had a small-scale business—I don’t know if I--and when he died, I—and I know, you know, that . . .

GULHATI: If ever that was the problem, it has long since ceased to be the case. [Laughter]

WEBB: Well, India started developing, hasn’t it?

KAPUR: If that was a recipe for success, we would have gone places.

WEBB: Well, you have. You’ve been growing more quickly the last ten years, haven’t you?

KAPUR: Actually, it's true. I mean, India has had one of the highest growth rates relative to many, but . . .

GULHATI: Yeah, but you can’t say that that is because of this mark of success—because, you know, I . . .

KAPUR: No, but people use the thing of this being a lubricant, you know, the [inaudible] analogy, that corruption should not be treated in a moral sense. Treat it as a lubricant, you know, a source—but they also say in Germany the nexus, particularly between banking and industry, and in Japan, too--there’s now, in fact, very good theoretical work which argues that the sort of keiretsu thing of holding companies and the fact that, like Mitsubishi, et cetera, have bank—you know, the bankers have strong interests with industrialists, you know, cross-ownership and this and that, which makes this whole thing between finance and industry, the nexus, very different, say, from the U.S.

GULHATI: So you see, but basically, potentially, DFCs could be a very, very important sort of interface between the public concerns and private initiative.

WEBB: Quite fits the Korean model.

GULHATI: Yeah. But I don't think that the Bank has anywhere near succeeded in . . .
WEBB: Yeah. Yeah.

KAPUR: They’re starting to cut back a lot, but again the figures, although officially they’ve gone back a lot on DFCs, they had this report in ‘87 or ‘88 on financial sector operations which included DFCs and agricultural credit.

WEBB: Together, huh?

KAPUR: Right. It was called the Levy Report.

GULHATI: Levy?

KAPUR: Levy, L-E-V-Y. I have a copy.

WEBB: Fred Levy?

KAPUR: Right. And it's called the Levy Report, which looked at this whole thing. But I noticed that actually DFC lending over the last three years, post-reorganization, was more than pre-reorganization for three years prior, so I don't know.

GULHATI: Nowadays I think that the whole Diamond notion of creating viable institutions which were autonomous and et cetera, et cetera, has receded in the Bank, I think. DFCs are regarded more as channels of World Bank lending.

WEBB: Like to get to the urban poor.

GULHATI: Exactly, sort of doing the Bank's bidding, so to speak, in terms of the right kinds of projects, small industry projects, or [inaudible] industry, rather than entities which are thinking out their own policy and trying to respond to the environment in which they are operating. So I think that the concept has changed completely.

And actually now they are more like the agricultural credit operations, which—I mean, nobody ever thought that agricultural credit institutions were going to be autonomous institutions. They were always regarded as, you know, part of the public sector and as sort of channels for directed lending, you know, either to promote particular crops or to, you know, do various things or promote technologies of various kinds. And I think now the DFCs are also regarded pretty much like that, not as, quote, “capital market institutions operating sort of autonomously” and . . .

WEBB: And you were in Development Economics three years, four years?

GULHATI: In the Development Finance Company or Development Economics?

WEBB: Economics, yeah.

GULHATI: Six years.

WEBB: Oh, six years! From . . .
GULHATI: ‘72 to ‘77.

WEBB: Oh, ’72 on. It was all with Chenery?

GULHATI: All with Chenery.

KAPUR: So you didn't see anything of Anne Krueger?

GULHATI: No. Anne Krueger came . . .

KAPUR: ’82, end of ‘82.

GULHATI: Yeah, well, by that time I was well into my Africa period. It started in ‘77.

KAPUR: And when did you leave the Bank?

GULHATI: Well, I left the Bank in ‘87.

KAPUR: In ‘87. So you did see that part of the institution—you were still in the Bank when Anne Krueger was?

GULHATI: Oh, yeah.

KAPUR: What was your sort of sense of what was happening then?

GULHATI: Oh, well, I mean, I was—you know, all the time that she was in--what was it called? It was called the DPS [Development Policy Staff] complex at that time--I was in the Africa department doing--I was the chief economist, so I had a great deal to do with her. My sense was that she changed around the research program of the Bank in a direction which initially I thought was very good but later on I felt very uneasy about.

I'll explain that. I think she was heavily responsible for changing the way in which the World Bank was perceived outside, in universities and in various professional associations all over the world, in a way which I think was very injurious to the Bank, in my view. Personally, I like her. I think she's a very clever woman, has done quite a lot of good work, but very ideological in my opinion, extremely ideological. She has no kind of--she knows developing countries quite well. She's worked in Turkey, and she's worked in, I suppose, some other places as well, so one can't say that she suffers from anything like unfamiliarity, but she tends to be kind of doctrinaire about her position.

KAPUR: There’s a story I heard, and I guess it was to do with Africa around that time, which was--you know these yellow cover staff working papers which used to come out? So I was just seeing, you know, why this stopped, and someone said that there's a paper written by a gentleman called Kevin Cleaver.

GULHATI: Kevin Cleaver, yes. [Laughter]
KAPUR: Is there any truth to that?

GULHATI: I don't know whether this is responsible, but I was--actually I was personally involved in the Kevin Cleaver paper.

KAPUR: This is the agriculture one on Kenya, on supply responses or something of that sort? No?

GULHATI: No. It was a paper which argued that getting prices right in African agriculture was getting to be too much of a preoccupation in structural adjustment lending and that in fact supply or production was much more responsive to non-price elements like infrastructure, credit, [inaudible] and so on. And it was a reasonably good paper, but in my view it was, you know--I mean, I would have argued that both are relevant and that you can't have the one without the other. And, after all, in the ‘70s we were having a lot of emphasis being given to non-price elements and we got into difficulty because prices were out of alignment. And what was needed in structural adjustment lending was a more appropriate balance between getting the price and the non-price elements right rather than--I agreed with him, by the way, that there was too much preoccupation on price reform, price policy.

But the importance of this paper is that it provoked Ernie Stern's wrath on no uncertain terms. And he wrote a memorandum to me--I was the chief economist--saying how did I let this paper get out into the field! Well, as it so happened, this guy never cleared his paper with me. He had shown me his paper in draft form, and I’d commented on it. I’d told him exactly what I’ve told you just--I felt that his conclusions were--I thought his analysis was very good, but that's not the conclusions he should draw. I mean, he was going even so far as to say that in the initial, in the next, in the near future, donors should be concerned with non-price, non-price concerns; you know, going far too far, too far. And so Ernie Stern attacked me for letting this paper go out into the field. In fact, the paper had been cleared by projects department, the department head.

But in any event, I said that our region, that we should, you know, try to give Ernie a reply, even though I was not personally involved. First of all, we should make clear that I wasn't involved; secondly, we should see now what is our position on the question that Kevin Cleaver raises and so on.

And that's an interesting story in itself. So I talked with all parties involved, head of the projects department, who happened to be Hans Wyss. Kevin Cleaver at that time was part of the resident mission in Nairobi, so I talked with the representative in Kenya and so on. I talked with his division chief, who was in Washington. And I put together a proposed reply to Ernie Stern, arguing what I've just mentioned that, at least that was my view, that that should be the region's view, you know. And I suggested that this memorandum should be sent by Jaycox--not by me, but by Jaycox. Jaycox refused to sign this! [Laughter] He refused to sign this, and I could never understand why. Some people, I think, told him that he shouldn't sign it because this would be a put-down of Kevin Cleaver, who was such a smart man and up and rising star, and this would be very demoralizing to the staff and so on and so on. So he never signed it, so we never replied to Ernie Stern.

Ravi Gulhati
July 9, 1991 - Verbatim
But whether that led to the suspension of the series, I don't know. I think the suspension of the series was probably stopped because—what’s her name—Anne Krueger argued that all sorts of rag-a-bag stuff was coming out with no quality standards, by which she meant that it didn't subscribe to her views. [Laughter]

WEBB: We've heard that one before, yeah.

GULHATI: What?

WEBB: We've heard that argument before!

GULHATI: But Kevin Cleaver's paper is the most often-quoted paper now. I've seen—and I see the literature, particularly on Africa, structural adjustment—everybody quotes from it.

KAPUR: And this is which year, this paper? '85?

GULHATI: What year?

KAPUR: Yeah, what year did this happen?

GULHATI: I think '85 or '86.

KAPUR: ‘85 or ‘86.

GULHATI: This is very interesting. This—Ernie Stern was very concerned, particularly because—of course, it directly attacked him as the major architect of structural adjustment lending. But furthermore it was directly contrary to Ram [Ramgopal] Agarwala’s index, which was published in the WDR. You remember this thing which said . . .

WEBB: No.

GULHATI: It was this index of . . .

KAPUR: This is the public management WDR?

GULHATI: Right. And it said--it ranked countries, this index ranked countries according to how well they performed in terms of GDP growth and related this to a kind of a hierarchy of countries according to the extent of policy distortions. And the things it looked at for policy distortions was trade policies, agricultural price policies, interest rate policies, exchange rate policies, oil prices—hardly any consideration given to non-price data—and alleged that there was a very high correlation between these two. So this became a famous—how shall I say—finding of World Bank research. [Laughter]

KAPUR: It's being refined in a different way in the new WDR--I mean, it was just out like yesterday--because a person called Danny [Daniel] Kaufmann, who did a whole thing on the Bank's projects, you know, taking the ranking or rates of return from OED and then relating those to policy distortions within the countries. So that
basically comes off with a pretty analogous thing, saying that Bank projects did well in those countries where policy distortions were less. I have that paper also.

**GULHATI:** This is quoted in the *New York Times* yesterday.

**KAPUR:** This one?

**GULHATI:** No, not Danny Kauffman by name, but *WDR*.

**KAPUR:** Right, right. It was released.

**GULHATI:** But anyway, Ernie Stern's gripe was that how could this paper be allowed to come into this series when it contradicted the Agarwala index. [*Laughter*]

**KAPUR:** The story I had heard was--I mean, somewhat variation, so I don’t know, I mean--it was that it was Anne Krueger who lost her cool when she saw this paper because she had been really pushing for the philosophy of prices being [inaudible] She took that and went to Ernie Stern and said that, “Look, this contradicts everything which we’ve been saying as an institution and what, you know, your thing of structural adjustment and that unless we have a centralized mechanism of control, the central institutional messages will be lost to the outside world. We'll be seen as an institution which has different messages” and so on and so forth. And so sort of she is placed at the center of sort of . . .

**GULHATI:** It could be. I think it's a very credible story, very credible story, very credible story. No, it’s a very credible story because it's very, very conceivable that she was the one who brought this to Ernie's attention, and then Ernie wrote the memorandum and . . .

**WEBB:** Yeah. The Bank has been pretty relaxed, though, hasn't it, about this sort of thing? This sort of thing happens, has happened a number of times.

**GULHATI:** Oh, yeah.

**WEBB:** Yeah.

**GULHATI:** I mean, the Bank in that sense is not a policy institution. It’s--I mean I worry about this also in the sense that--I worry about two things about the Bank’s, dimension of the Bank as a policy institution. One is that it has no, it's not very well organized; the Bank is not very well organized. People say, you know, different things, et cetera, et cetera. So, you know, how can we be credible, really? The Bank--the IMF is much more. They're much more monolithic. Everybody knows what the whole IMF thinks is right and what IMF thinks is wrong. And as a policy institution, that’s what you're supposed to have. You have clarity, you must have. You must be predictable and you must be clear about what you think is right and what you think is wrong, right? The Bank is far away from this. I mean, the Bank is shooting off--it's completely disorganized. But that's one thing.

The other thing I think which is very hurtful to the Bank as a policy institution is that it is--certainly in Africa for a long time, and it's probably still the case, but perhaps
less, certainly in Africa and also in Asia, many very serious-minded people regard the Bank as not an autonomous.

[End of Tape 2, Side A]
[Begin Tape 2, Side B]

WEBB: Yeah.

GULHATI: I agree with that. I think it was—that, I think, by the way, I think in the McNamara period, the Bank was regarded as much more of an independent, autonomous institution. In Clausen and Conable periods, unfortunately, that's not true.

WEBB: Yeah.

KAPUR: Did you sort of have any experiences when you were in Africa, I mean.

GULHATI: Oh, yeah. No question. I mean, you know, we started a--this is one of my initiatives. We felt at the end of the ‘70s--actually before the structural adjustment lending policy was pronounced--that governments in Africa were not fully sensitized to what was happening to Africa, that they did not have the capacity of analyzing their own policies and how they had worked, et cetera. And furthermore they were, you know, they were blaming everything that was happening to them on low copper prices or low coffee prices, not enough attention being given to their own failures in domestic policy.

So what we thought we should do was to promote a kind of a forum of discussion with senior bureaucrats at the permanent secretary level, to talk to them in a group, have seminars with them in a group kind of format, which would kind of get away from the anxieties of negotiating loans but talk about issues affecting Africa and so on, in a kind of a more detached context, a kind of a more seminar-like context. So we established, we organized a seminar financed by the Commonwealth secretary, and this seminar later on was replicated by the EDI [Economic Development Institute] as what we called high-level policy seminar, we called it. And I then later on moved to the EDI, and I participated and designed many of these seminars.

And in the course of these seminars all these things came out like, you know, they felt the Bank was not autonomous in terms of policy advice, that the Bank policy advice was a reflection of latest twists in Reaganomics, that we were just toeing the line, that we didn't have any—we were faddish.

KAPUR: But, I mean, more or less, say, specific country that’s said or alleged, actually, that Bank [inaudible] Sudan and Somalia, Ethiopia, Horn of Africa interests, this is sort of—we're talking of early ‘80s. Zaire for a long time, all different aspects of Angola and Mozambique, that what it did or did not do in terms of country strategy, not project so much, was influenced by, say, the U.S. Was that ever your sense?

GULHATI: Was that what?

KAPUR: Was that your sense ever that specific countries were sort of treated better or worse?
GULHATI: Well, I can't say that that was so in any direct and explicit fashion, but let me give you an example. Take the case of--I'll give you two examples.

Take the case of Sudan. Sudan, the whole business of policy reform in Sudan was a very trying and awfully difficult up-hill task. Finally we got Sudan to pay attention to its financial and economic problems around about 1979, and then the implementation of these decisions which the Sudanese took, both in relation to agreements with the Fund and with the Bank. The implementation they were not able to sustain, and there were lots of difficulties in the implementation period. And meanwhile it started to emerge that their debt was even larger than it was thought to be in 1979 because, you know, they hadn't been keeping their records. And so debt became a much bigger issue, et cetera.

So there was one year in particular I remember when Sudanese government, their sometimes forward, sometimes backwards, kind of dance, were being very cooperative with the Bank and the Fund, but this debt problem was looming very large. [airplane noise throughout most of this side of this tape] So we were just, you know, wondering what to do about this, given that the Paris Club had its rules which were much more rigid then than they are now. There didn't seem to be any way out. But suddenly the U.S. decided that they were going to champion the Sudan. It had to do with the position the Sudan had taken with respect to the . .

KAPUR: Camp David?

GULHATI: . . Camp David agreement, and they were the only country which was not a rejectionist, an Arab country, and so they wanted to do something for the Sudan. So they sent faxes or cables to all Paris Club delegations, kicked up a big noise, with the result that Paris Club came up with the agreement with the Sudan on debt which was, by standards that existed at that time, was very generous. That, of course, made life at the Bank much easier because we were supposed to mobilize the external resources for supporting this Bank and Fund programs for reform. And also in the consultative group itself the U.S. took a position of leadership and elbowed all the other donors to put up the money and so on and used all sorts of tricks vis-a-vis their European partners and so on. Japan, they kicked Japan in the belly and asked them to shell out some more money, et cetera. It made life simple. So obviously it makes a big difference.

Now, in the case Zambia, by contrast, again it was a very difficult process but the U.S. would not play that role. We asked them to play that role, but they would not play that role. And there was no other donor who was prepared to play that role. So it fell between stools. There was never enough money for the Zambians.

But that's not what I--I mean, when I say that the Bank's policy independence is being compromised in recent years, I don't mean this kind of thing. I mean that there is the view which prevailed amongst African influentials—both, certainly in academic circles but also in official circles--that the Bank had no independent thinking capacity, no independent policy position, so that when the Bank was putting together a set of reports designed to suggest to governments what policy package they should adopt,
that we were just repeating parrot-like the shibboleths of the time rather than using our expert analysis to arrive at country-specific, ideologically neutral conclusions.

We were never ideologically neutral, that's for sure. That was not in any doubt, but the extent to which we were regarded as non-neutral became larger and larger. I think that our friend Anne Krueger had much to do with it. I think she went down the liberalization of the private sector and private sector and private market possibilities, and so on and so on and so on, you know, in a kind of unthinking way. I mean, to a large extent this was an agreement; we were--everyone had common ground. We all felt that the public sector was doing badly and that some kind of redefinition of the role of the public sector was required, but it's one thing to kind of take that position and to work out a program which is sort of businesslike and operational in terms of country circumstances and another thing to repeat the thing time and again from one country to another. And I must say that what she was saying in various public reports of the World Bank like the *WDR*, various other papers and her own speeches and so on had very little relationship to what the regions were doing. Nevertheless, she helped to create an image which gave support to all the critics of the Bank who were then able to point to these official documents as saying now—I mean, I kept going around saying, “Look, I mean, whatever our *WDR* is saying, this is not how we are operating in this country.” And they would say, “What do you mean? This is the Bank's position. This is the Bank's declared doctrine. How can you say that that's not the case?”

WEBB: Well, two things came together. One was Anne, and with some degree of independence, coincidence, you had [Ronald W.] Reagan .

GULHATI: Yeah, right, right.

WEBB: . and U.S.

GULHATI: And [Margaret] Thatcher, Thatcher, yeah, the same thing.

WEBB: . [David C.] Mulford, you had this need to line up the Bank. And the countries .

GULHATI: No, it's a good question to ask, I mean, back to how would McNamara have acted in this period? You see, that's an interesting question for you to explore and to speculate.

WEBB: I've often wondered about it. I’ve asked some people that.

KAPUR: Would he have had to, been forced to adapt, also, with the changes.

GULHATI: Well, I don't know. I mean, for example, he refused to adapt in the confrontation with [William E.] Simon and that created a fracas and it wasn't that good for the Bank, either.

KAPUR: It hurt the GCI [general capital increase] for some time.
GULHATI: Right. Again, it's a matter of, you know, how one, how the president of
the Bank in this case, sees his mandate and his--whether he's interested in larger
monies in the short to medium term, whether he is interested in protecting the role of
the institution as autonomous policy advice giver.

In the early ‘60s I was working for the government of India and I went as part of the
Indian delegation to a meeting of UNCTAD [United Nations Conference on Trade
and Development]. And the general atmosphere at that time was the Fund is an
instrument of the rich countries. The UNCTAD is an instrument for the poor
countries. And you go to the Bank if you want a serious study which is sort of going
to be, you know, somewhere in the middle and . . .

KAPUR: Is this before the /Bernard R./ Bell mission, that whole . . .

GULHATI: No, I'm not talking about the atmosphere in India. I'm talking about the
atmosphere in UNCTAD circles at that conference, amongst the kind of . . .

KAPUR: Senior bureaucrats?

GULHATI: Yeah, you know, the political and economic circles and professional
circles. That was the kind of view. I don't know whether you would . . .

WEBB: Oh, absolutely. I remember exactly what you're saying. Very much like that.

GULHATI: Now, now the Bank and the Fund are the same. They are regarded as
instruments of the rich countries, and UNCTAD is ineffectual, now ineffectual. North,
south, all that business about new international order is out of the window. UNCTAD
is doing something useful somewhere in Geneva, doesn't count for very much and
UNCTAD conferences are a big bore. The Bank and the Fund are in the pocket of the
rich countries. That's the kind of populist view, if you like. I don't say this necessarily
is the case, but it's how they're perceived.

WEBB: The rich rather than the U.S.?

GULHATI: Well, more the U.S. and the U.K. alliance, I guess, and the Germans.
They're there also. The French have a distinctive view. The Scandinavians have a
distinctive position. The French are, you know, always a little bit different.

KAPUR: It's a strange thing. I mean, although, I guess, not really, more symbolic. I
was going through random Board transcripts of the Board the last three decades ‘til
last week essentially, and there’s a much greater north/south division now, you know,
which directors, who says what. Say, if you did not know who the director was, you
could easily say he came from a rich country straightaway, whereas even at the height
of the NIEO [New International Economic Order], the north/south thing in the late
’70s, at least in the Bank's Board, at least--again this is more perhaps symbolic; I don't
know—you know, there was much greater, well, it was much more civil, in the first
place. The level of debate is much more, is much greater sort of confrontational
atmosphere, but there's a much greater sort of especially G-7 sort of stuff versus the
rest. And, you know, it's less about the institution per se and its interests. But, again,
these are more perceptions.

Ravi Gulhati
July 9, 1991 - Verbatim
GULHATI: Actually, you see I think what’s happened is that, say, the Scandinavian posture vis-a-vis Africa, which in the early ’80s was saying that, “Well, World Bank is, the IMF are being too conditional, and they are being too intrusive,” and that they stood for an alternative. And the alternative was that we should let these countries do their own thing and we will give them money. Now they've retreated from that after 1986 or ’87.

The test case in this case was Tanzania. Tanzania used to be the, you know, big favorite, Julius K. Nyerere and so on as the kind of star figure. And the Scandinavians were very keen to allow Nyerere to perform, you know, kind of. But after ‘86 they gave up, and they really also left. And so now, you see, the . . .

By the way, I attended in 1987 the meeting in—where was it?--Uppsala, which was a meeting organized by the Scandinavian Africa institute or something like that.

WEBB: Africa Forum, was it?

GULHATI: No, it was called—it’s an institution, African studies institute.

KAPUR: Is that the one where in ‘86, ‘87 the World Bank was organizing these seminars in Europe?

GULHATI: No, it wasn't that. That's a different one.

No, this was something from the Institute of African Studies, called the Institute of African Studies, in Uppsala, which had got people together from all the Scandinavian countries, both academics and officials, got the Bank and the Fund, and got academics and officials from three or four African countries to discuss--I have the book here, actually--discuss the World Bank and IMF and African countries. And that, by the way, I think was the turning point because there the people who were kind of spouting the earlier line of the Scandinavians found it hard to defend themselves against what was happening in Africa, against how the governments in Africa were not being responsive to their own economic problems and so on. So they found it hard to defend themselves.

And then they tended to close their—they tended to kind of come nearer the Bank and the Fund, although they're still now concerned about the Bank, but a much closer relationship now than they used to have. Because in the early ’80s the Bank said, “We won’t—we will reduce our lending to Tanzania,” whereas the Swedes and the Norwegians and the Danes and so on said, “No, we won't.” In fact they tried to offset the decline in Bank lending.

KAPUR: Could you give us a reference to this book?

GULHATI: Yeah.

WEBB: I'm really amazed at how much change I see in the Bank, coming back eleven years later.
GULHATI: What do you sense?

WEBB: Well, it seems that the Bank is much more of a political institution now, in several senses, I guess. It's much more of a—before, one of the effects of dealing in projects principally was that it put you at a distance from sort of the good and the bad. I mean, the bad is that what you were talking about before, the Bank wasn't able to press on policies, so a lot of projects like the DFC’s money might have been wasted because the policies weren’t right and so on, all those good reasons or those problems with the project lending. But project lending made it much easier for the Bank to have that sort of image that you were talking about before, much more technical, neutral, non-political, and it went with McNamara's independence.

And another aspect of it, the Bank had its money and invested it. Now the Board is much more active, the Americans in particular, and funds are earmarked all over the place. There’s environment money here and environment money there, and all of the trust funds for . . .

GULHATI: Because the Bank's budget is no longer—it seems a . . .

WEBB: And kind of--people dealing with any one, like trying to arrange a deal for Peru now, they’ve turned into diplomats [inaudible] They have to be aware of what everyone else is doing, a whole bunch of other actors. So it's, externally, a much more complicated process, but also internally because internally you have all these new objectives. The Bank is much more separated. Plus you have the strong view, inhibitions or criteria, environment, women and so on. In other words, I think the eventual effect of everything must, I would think, be to make everything a lot more complicated, slower, and whenever--that is, it’s kind of choked. Money has to go out anyway, so money goes in bursts. You just forget about a whole bunch of criteria, and it shoots out, but then it gets choked up again so you have more erratic lending practice, also, and that tends to reinforce the political image. I don't know. Is that a correct view? You keep in very close . . .

GULHATI: I don't. I don’t really. I have not kept up with the Bank. I mean, I now have knowledge of the Bank . .

WEBB: But even in ‘87?

GULHATI: Ah, ’87.

WEBB: Did you feel yourself that you were in a very--in a different institution?

GULHATI: Oh, yeah, yeah. You see, I come from a long time ago. I mean, I joined the Bank in 1956, so one reason why I left was because I felt that I knew too much! [Laughter]

See, I mean this--you know, one can't--well, one of the things, you know, about the Bank is that--well, one of the things that I think that has happened, which is very unfortunate, is that the whole process of promotion in the Bank. I suppose it was never entirely meritocratic, but it's now much less. It's much more a kind of who-
knows-who game, and that is very demoralizing for—must be demoralizing. I'm not there, but I suspect it must be very demoralizing.

WEBB: Yeah.

GULHATI: You suddenly have people shooting past you, you know, because they are related to somebody who knows the Treasury or something. It must be quite awkward. And from the discussions I have with people here, you know, mostly, you know, erstwhile Bank colleagues who are still there and who--I see them socially and so on--one has the sense that . . .

Of course, people who are now in positions of power put a kind of a positive light on everything is okay.

WEBB: That's natural.

GULHATI: But one way or another things do show in the sense that they have some misgivings, more than before, and certainly the people who are not in positions of power are a lot more disgruntled than before and some sense of disappointment in the institution, which perhaps didn't exist quite to this extent before.

KAPUR: Perhaps much more cynicism?

GULHATI: Much more cynicism, much more, much more of a sense that, you know, “Oh, the World Bank! You know, why do I work there? Not because of a sense of commitment or because I want to do something for development but because it's a good salary.” I think a lot of people now have that. They will be there because it’s, you know, it's a damned good source of income.

WEBB: There used to be a lot of mystique.

GULHATI: Yeah, that mystique has diminished.

KAPUR: Especially, I think it's true of the younger people, of, say, that, especially--I would hate to say it--but especially those who come from developing countries, it's the name, the glamour, the money, not at all the mission. The narrative, I mean.

GULHATI: Yeah, but see, this is exactly what it was not before.

KAPUR: Right. Exactly.

GULHATI: Although, I mean, also I think that . . .

KAPUR: I mean they don't care two hoots about development. I've talked to so many of these guys. They've come from classes which have never cared about it; they come from groups which—you know, just the hiring pattern’s a lot more MBA types, say, for example--relative to earlier types--who by definition, you know, find, you know, they’re there, it’s a job, it’s a good job. You're not really on Wall Street, but, you know, it's sort of that. They could be very good, but they have a different orientation.
GULHATI: Well, let's put it like this: I think that take somebody coming from our country in the, let's say, the 1960s, like, you know, Montek Ahluwalia and Shankar Acharya, and so on.

KAPUR: Rakesh Mohan.

GULHATI: Rakesh Mohan. I guess they agonized over whether they should join the Bank or whether they should join the government of India. And they came to the Bank partly perhaps because it is a more comfortable life than what they had ever been, but partly also because this was a place which would expose them to interesting development experiences, and they found that they could perhaps be of some service. Now, I guess, people who are sort of trying to make their decision career should be [inaudible]

You have to make your decision.

KAPUR: Well, I am employed by Brookings, so I have . .

GULHATI: No, no, my point is that Brookings is a short-term of assignment, but you have to think about your long-term career, so you have to--I don't know whether I'm wasting your sentiments or not, but obviously working for the government of India is no longer very charming for people like university or some other people or even from prestigious universities in India. He's not interested in working for the government. The government’s reputation has gone way down.

KAPUR: This is a sad thing, because it's become a chicken and egg story, poorer people who join the government as a result means that the government becomes an even poorer institution.

GULHATI: Yeah, but in terms of the mission of the Bank, whether they join it more because of that or because of the good emoluments and good situations, I guess that I don’t know.

WEBB: It's scary, because I wonder where all the altruistic energy and mystique will vent itself.

GULHATI: It's going into NGOs [nongovernmental organizations]. It’s going to the NGOs.

WEBB: NGOs.

GULHATI: I think the--there's no doubt about it in my mind, at least. NGOs, they may not be very effective at the macro levels--they are not, obviously--but people who are really committed. I find, at least in my circuit, I find that people who are—let’s put it this way. Forget about McNamara's no tradeoffs, but there is a tradeoff, you know, there’s a tradeoff. If you want a good, comfortable life, you join World Bank. [more aircraft noise] If you are committed for development, you don’t join; you join an NGO in India. You join an NGO in India.
KAPUR: But, Richard, that’s exactly—I mean, obviously Richard and I have been having this heated argument on responsibility. Who is the institution and individuals within the institution--are they responsible to anyone for their actions? But I guess it’s sort of who I see and who you see. But especially when these younger guys who I see who, twenty years down the road, you know, when they goof up, which even non-stochastically they will, you know, deliberately or otherwise, who are they responsible to? I mean, who gets caught as a result of their actions? And it’s a different sense when you are, when you make mistakes, because mistakes are always going to be made, even with idealists, but it’s a slightly different sense when--I don't know.

GULHATI: Well, look. This is a very serious question, and it really leads to two questions. One is what you guys will, how you guys are going to deal with the YP [young professionals] question, what has been the impact of the YP on this institution. And the second is again related to the policy of rural development, and there—I mean, there's a genuine point that people in developing countries make when they're negotiating with the Bank (as I'm sure you have done from Peru) and that is, “All right, you're suggesting all these good things to do, and they seem very good and so on. But suppose they go wrong. Then what?” And what will happen to you, as the head of the central bank, and as contrast with this, what will happen to the country director or the vice president or whoever in World Bank? What are the personal consequences of, if you like, downside risks in policy-making? That's, I think, what you mean by this responsibility. I think it's a very serious question.

KAPUR: Yeah, I think it’s that, and I think it’s also more than the actual reality of that is the perception, is that if I perceive that your advice affects me and something negative happens it only affects me and not you, I sort of begin to resent that. So even if the advice is good, the perception that, “Look, only I in the end am going to take the heat.” You know, so I begin to resent that advice, much like the sort of African thing where the perception that it is an American institution matters more than the reality because you act often on the basis of perceptions, not on the reality. So, you know, it's sort of—I don't know.

GULHATI: Well, reality is perception in the absence of any contradictory analysis.

KAPUR: Right. Exactly. That's becomes--because the basic facts [both talking at once] or because that’s the basis of action.

GULHATI: You can see that there is a tree there unless somebody demonstrates that the tree is not there.

KAPUR: True.

GULHATI: No, but I mean I think that that leads to the whole question of the Bank’s personnel policy. It really does, because .

KAPUR: Well, you know we've done this—I did this thing which--I pulled all the YP, the backgrounds.

GULHATI: You have done an analysis?

Ravi Gulhati
July 9, 1991 - Verbatim
KAPUR: Yes, and of all the managers in the Bank, division chief and above. But it's--you know, you can't really do a very good--but all the backgrounds, where they were educated, their pre-Bank experience, their last degrees, so on and so forth.

GULHATI: No, my point is this, that--first of all there is the question--I mean, the following questions occur to me: One, is the Bank giving, to what extent is the Bank driven by credentials in hiring? I don't know how you are going to test to what extent the fact that you went to Princeton is going to figure in the probability of your being accepted as against, let's assume, an equally competent person who didn't go to any Ivy League university or indeed didn't go to any western university at all.

KAPUR: Zero, it's virtually zero the probability that they'd be hired as a YP.

GULHATI: Now, that is something to be worried about, you know, I would--worried about because it creates a certain culture which then has consequences for the way in which the Bank conducts its business, the Bank's capacity to really communicate with its clients and so on, many of whom haven't been to Princeton.

WEBB: This is a question about the criteria for hiring more generally than the YP program, isn't it?

GULHATI: It's more generally.

WEBB: Yeah.

GULHATI: But it applies to the YP program with a vengeance because the Bank's non-YP sources of hiring have diminished over time to almost down to very, very little. Isn't that true?

KAPUR: Right.

WEBB: But it makes it much worse because if you're not hiring as much directly on the basis of experience, specific experience, then you end up hiring by credentials.

KAPUR: [both talking at once] even more, but the other is that earlier on, when you were hiring from outside, then you were hiring from, say, the government, someone who is working for the government of India.

[Interrupting and change of location]

GULHATI: . . because the more they move around, right, the less kind of responsibility they will have for the consequences of what they are advising and promoting, unless one can argue that in their new positions they are evaluated for the consequences of their old work, which is not the case, I mean certainly not the case.

And, you know, by the way, one of the curiosities in all this is that the Bank takes a very critical view of this musical chairs when it comes to either ministers or high officials or managers of public enterprises in developing countries and makes the same argument, that there is too much, you know, too much time taken in moving from one job to another and learning the reality of it and too little responsibility for
the consequences of what people do in any particular job. And yet in its own hiring policies, in its own personnel policies, it has not paid attention to these same matters, as far as I can tell, in the interest, I think, of freedom for the employees to better their careers. So there is another tension here because, you know, anybody who finds a better job cannot be prevented from moving to a higher grade or something.

WEBB: Yes. That's how it works.

GULHATI: Absolutely.

KAPUR: Sort of an internal market.

GULHATI: Internal market, right. And furthermore, actually, even those people who don't find a superior grade job elsewhere are expected to move in the interest of so-called rotation.

WEBB: I remember that, yeah. After so many years.

GULHATI: After so many years. In principle, it's not a bad idea, but the question is what violence it does to this business about responsibility, and that's a matter of, you know, evaluation. I don't know what the answer to that is, but it's an issue that is worth looking at.

WEBB: I wonder who handles this in an adequate fashion, what kind of institution. [inaudible] institutions the internal work gets thrown out [inaudible] as you say, measures, company directors, managers, shareholders in the extreme case, extremes.

KAPUR: Well, but the other is rather than the--whether there is a sense in the institution that those who have believed in quality in, say, projects and so on, they did better in a very rough way than those who were pushing play money, in a sense come along [inaudible] don't have.

GULHATI: I think there is a widespread view among staff that people who have--you know, putting up qualifications or putting up resistance to the forward movement of the project through the project cycle, perhaps for very good reasons because they’re feeling that the project quality is not good or something, suffer in their careers because they are not exposed. They don't get exposure. I mean, that's the trade. You have to--in order to get promoted, you must have exposure, and to get exposure, you either have to write a very good report or you have to present a loan to the Board or something.

KAPUR: The career of a gentleman we spoke to—the res rep [resident representative] in Malawi—who seemed quite [inaudible] because he was responsible, as we found out later, for keeping loans [inaudible] refusing disbursements of loans for environmental reasons, the sort of now well-known Brazilian Polonoreste. The first time it stopped disbursement for resettlement was in Indonesia transmigration projects, and he was [inaudible] But you see where other people of his YP background might be . . .
GULHATI: Yeah, no, this is a very serious question. I don't know what you people can do about it, because you know it's a very hard thing to get hold of. But it’s a . . .

The other thing I think which is worth, you know, your attention is the extent to which the system of performance evaluation in the Bank rewards, if you like, individual achievement as against group achievement. Again, my hypothesis is that the accent is very much on the individual to rise and shine, whether he is a good team member or whether he is trying to promote the interests of the group, however he perceives the group, that . .

[End Tape 2, Side B]
[End of interview]