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Transcript of interview with

Andrew Kamarck

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Kamarck: This is Andrew Kamarck speaking. I came to the Bank in November 1950 to the economic department. My job at first was to be the chief of the section on Africa and Australia. After a reorganization of the Bank in 1952, I became economic adviser in the Department of Operations--Europe, Africa, and Australasia.

The first operation that I worked on in the Bank in many ways is one of the most interesting. This was a loan to the Belgian Congo. This was quite a complicated loan, because the Belgian government, specifically the Ministry of Finance, was not terribly interested in securing any funds for the Congo, but they did want to get a loan for Belgium. But what we were mainly interested in was the development of the Belgian Congo.

In working out the loan, what we did was to take the first three years of the 10-year development plan for the Congo. We agreed that it was a good and well-balanced effort. And then we agreed to help fill the gap of the financing needed. And this financing needed was composed of two elements--actually three--in the way it was finally worked out.

There was a direct loan from the Bank to the Congo of $40 million guaranteed by Belgium, and a loan to Belgium of $30 million. This loan to Belgium was not tied to any particular project. It was not tied to
anything other than a commitment on the part of Belgium that she would make $30 million worth of Belgian francs available to the Congo, for investment.

Q: Which it might perhaps not have otherwise done?

Kamarck: Which she otherwise would not have done. The Belgian Ministry of Finance and the Central Bank were quite willing to do this because what they were worried about at that time was their dollar position. What they wanted was dollars. They weren't interested so much in resources as they were interested in just the foreign exchange.

The third element in the loan to the Congo was that it was also associated with a similar financing provided by the ICA, the U.S. government’s aid agency; and these were all tied in together to make the package of the financing necessary for this first three years of the development program.

This latter element was worked out on an informal basis between the U.S. government and the Bank--between the ICA and the Bank--because we were both interested in helping the Congo; and by tying the whole thing up together that way, we got the Belgian Ministry of Finance to agree to the carrying out of this operation.

The money made available to the Congo, the $40 million direct loan made to the Congo by the Bank, was tied to both a project and a program. It was tied to the financing needs of OTRACO, which was the public transportation agency of the Congo, and it was also tied to the total program. There was no direct association of the loan with direct foreign exchange expenditures as it happens in most Bank loans. The
money was instead dispersed on the basis of total disbursement of OTRACO in the Congo.

The justification that we used was that the direct and indirect foreign exchange cost or impact of the total investment program that we were helping to finance would amount to at least the $40 million that we were making available directly.

For about the first year the disbursements were tied to OTRACO. After the first year, the disbursements were tied to disbursements on the total program. They were made on the basis of a percentage of the total cost of the program.

Q: What do you mean by “program”?

Kamarck: This was the three-year branch of the ten-year development plan of the Congo. This included not only OTRACO. OTRACO itself includes the railways, ocean ports, river ports, river steamers. The rest of the program also included a road program. It included education. It included public health measures. It included administrative building. It included water supplies. It was a whole comprehensive development program.

In setting up the loan what we were interested in was seeing that the whole development program went forward. And one of our fears (and this fear became justified) was that OTRACO’s program—as OTRACO was a very competent organization—would run ahead of the rest of program, and our loan would be completely disbursed in relation to the OTRACO project while the rest of the program would not yet be completed. We wanted the whole program to go forward together.
Consequently, we tied our disbursements to both the rate of disbursement of OTRACO and its projects and the total program.

At the end of the first year, OTRACO had run ahead of the rest of the program. So then we shifted, as we were entitled to do under our loan agreement, from disbursing on the OTRACO project to disbursing a percentage of the total cost of the total program; so that our disbursements actually, I think, were stretched over four years, because this total three-year program took four years to carry out.

Now, another --

Q: May I just ask one question about this loan? Did the fact that you were actually giving foreign exchange to the Belgian government directly interfere in any way with the principle of international competitive bidding in the Congo project?

Kamarck: Well, let's put it this way: the fact that we were lending money to Belgium directly meant that there was no international competitive bidding for that particular part of the loan.

Q: In other words Belgium concerns were supplying the actual goods that were going into the Congo?

Kamarck: Well, the way it worked was that this money was made available on a loan basis to Belgium, and then Belgium turned around and made a loan to the Congo of Belgian francs for the total investment program.
Q: And the Belgian francs were spent on Belgian goods?

Kamarck: No, the Belgian francs could be spent anywhere in the world, because in the case of the Congo, under the Congo Basin treaties, the Congo is not allowed to discriminate in favor of Belgium. And, as a matter of fact, I think somewhat more than half of the imports into the Congo come from countries outside of Belgium--because of this lack of discrimination--although, of course, there always is subtle influence in that Belgian firms, Belgian contractors in the Congo, are used to working with Belgian equipment, and therefore all other things being equal, buy Belgian equipment.

Let's see--what else would there be of interest on this particular project? I suppose one of the points of interest on this project is that this was really the first impact loan of the Bank, but practically nobody paid any attention to that aspect or even noticed it.

Q: You mean anybody outside of the Bank?

Kamarck: Anybody outside of the Bank, and, as a matter of fact, a good many people in the Bank didn't either. The Congo authorization went through without really any difficulties in the Bank at all--meanwhile there was a big battle going on in the Bank as to whether or not we should make impact loans in connection with a proposed loan of $10 million to southern Italy. Everybody was busy fighting about that, because it had been put up as a revolutionary policy change, while in the Congo, where we set the loan up, without waving any banners, it went right on through without anybody fussing about it at all.
The Congo loan was also important from another point of view. It was the first loan made to a colony by the Bank. And one of the important factors in this was that when they were working on this loan, we made a point (I think both Mr. Cope and I--I've forgotten just which one of us handled what) of keeping both the French and the British colonial ministry informed on how we were handling this. As a result of this, the British, in particular, almost immediately brought forward projects to us to finance; whereas up to this point there had been a feeling that the Bank would not be able to help in the development of the colonies.

There were a number of policy points at that time that I've half forgotten that had been regarded as insuperable obstacles to colonial lending. In this particular case--the Congo--we overcame them. And then after that the other colonial operations did go forward.

Q: I assume that the Belgian government guaranteed the loans.

Kamarck: Yes.

Q: What has happened to this since the Congo has become independent?

Kamarck: In this last year as a result of the chaos in the Congo, the Congo has not been servicing the loan, and the Belgian government has. But this is quite a complicated matter. This does not at all necessarily mean that the Belgian government is really bearing the burden of this because there are a number of assets and sources of income that belong to the Congo which are at the present time more or
less being held in escrow in Belgium, so that the Belgians are being
protected on this score. But, at any rate, the Belgians are
recognizing their responsibility.

Another interesting operation was the second colonial loan, and
that was a loan to Southern Rhodesia in 1952, early 1952. This loan in
some senses was an ideal Bank operation, because it was carried out the
way we like to think we would like to carry out most operations, or at
least the way we would like to approach most operations.

The government of Southern Rhodesia asked the Bank to send a
mission out to see in what way the Bank could be of help to the
development of Southern Rhodesia. Raymond Cope and I went out on this
mission. We looked at the Southern Rhodesian economy and came to the
conclusion that we could lend, that it was credit worthy. Then we
looked at the development program of Southern Rhodesia. They had a
good development program, which in large part had been done by C. H.
Thompson, who is now in the Bank. We looked at the development
program, made a quick study of it, and came to the conclusion that it
was a program that the Bank could and should support. Then we
discussed with the government their sources of financing--internal and
possible external--and we found a gap of £10 million that was needed to
finance the development program. So we decided to recommend to the
Bank that the Bank fill that gap.

Q: Program in this context is similar to program in the other?
Kamarck: It was a comprehensive development program. It included all the public utilities run by the government as well as the other investment capital expenditures of the government.

Having decided the amount of the loan, we then looked over the development program to find a good project or projects which we could associate our financing with and where the foreign exchange component would be large enough to absorb the £10 million. This turned out to be the case of the electric power projects that the government had in its plan. The result was that the loan was made to Southern Rhodesia for electric power of the equivalent of £10 million.

This operation really ties in with what happened later on, because on this mission the government asked Mr. Cope and me to take a look at a big hydroelectric project that was under study. We both were taken on a plane and flown over the Kariba Gorge on the Zambesi River. So this was the first contact that the Bank had with what later became the Kariba project.

One should add here that our technical people--Mr. Spottswoode, in particular, who was looking at the electric power project in Southern Rhodesia that we financed--looked at it not only in the light of the plans of the government in the electric power field and the potential demand for it, as of that time, but also how these proposed plans that were going to be financed would fit into a power network if Kariba were done within the foreseeable future. So that the loan was made in the light of the possibility that Kariba might come forward very soon.

Well, by 1955, the two Rhodesias and Nyasaland had been federated into the Federation of Rhodesia and Nyasaland, and the possibility then existed for the two territories to agree on a single power project.
The need for a big power project largely came from Northern Rhodesia, where the copper belt had been growing quite rapidly, and its need for power in particular had been growing rapidly. The power plants that supplied this power were on the one hand very shortly going to be inadequate; and something would have to be done to supplement them. And secondly, the plants were quite old and reaching the end of their useful life. So that one would either have to go for completely new thermal plants or one would have to find some other way of meeting the needs.

There was quite a bit of bickering back and forth, discussions and negotiations, between the Northern Rhodesian and Southern Rhodesian governments, as to which particular project (there were two contenders – Kariba and another project called Kafue) should be done. At one point, the governments wanted the Bank to come in and arbitrate or decide which of the two projects should be done. The Bank considered this seriously but decided that this was in part a political issue and one in which the Bank should not get involved. Finally the federal government decided to bring in completely impartial outsiders, and they brought in first Electricité de France to study both projects and then a consultant, Andre Coyne, to advise them on the results of these studies. Andre Coyne said that both projects were good. He recommended doing both. The government said that they could only afford one and asked which they should take. Then he said that from an engineering point of view they were both good, but Kariba was somewhat safer, because there was more data available on the river flow. But Kariba was much bigger than Kafue. So then the government decided to ask the Bank for advice as to whether or not Kariba would be
economically justifiable for the Federation to do. The Bank sent me with Guy Trancart to do the job.

Well, we recommended that Kariba was economically justifiable. And then ensued a whole series of negotiations in which the Bank played quite an important role, but it's a fairly complicated series of discussions.

The period in which all this consideration was taking place was a period of very high copper prices. In the course of this first economic mission in discussions with the government, I indicated that I thought that the copper price that was prevailing was much higher than anything one could expect to prevail over the long run; and that any revenues that the government was getting out of this were windfall revenues.

I also indicated that if the government took some action to take proper advantage of these high revenues to use them to finance economic development rather than to allow its recurrent expenditures to be swelled, that this was the sort of action that the Bank highly approved of. So before we left the Federation, the federal government announced to us that it had decided to take a price of 30¢ a pound for copper as a normal long-term price, and that any revenues that came from copper being higher than that, they would regard that as "fat" and that it would be used as a means of financing development and would not be brought into the regular recurrent revenues.

In the course of the next year, I visited the Federation on my way to a mission to the Union of South Africa. And in that mission to the Union of South Africa, I talked to Mr. Ernest Oppenheimer, the head of Anglo-American Corporation, which has very large interests in the Union
and in the Federation. In the course of these discussions, Oppenheimer indicated that he was thinking of doing something to help in the financing of Kariba. Then in the course of discussions with the federal government, I discovered that they were thinking in terms of imposing an export tax on copper to try to take further advantage of the high price of copper. However, under their time table the tax would be applied at some point in the future. Actually, if they had gone through with their original idea, the tax would have come into effect at a time when the price of copper had dropped below the effective rate at which the export tax would apply.

While I was in Salisbury, I talked to the people in the Federal Treasury, and I hinted to them that if they negotiated with Anglo-American and the Rhodesian Selection Trust, the other copper mining interest, that they might do better by such negotiations than by imposing the export tax. Later when I returned to Washington I talked this over with Raymond Cope, and he took this point also. And later on that year when there were discussions in London with the Rhodesians in which he took an active role, he put across the same idea.

Anyhow, what did happen was that the Rhodesian government was able to get out of the copper companies a contribution of £10 million to the cost of Kariba disguised as a price to be paid for the power higher than the price to be paid by other consumers, and the copper companies also agreed to put up £20 million in finance for Kariba.

The following year when the negotiations on Kariba really began, one of the points that we made to the Rhodesian government was that in carrying out as enormous a project as Kariba in a country of relatively small size, it was very important that their overall development
program not exceed the real resources of the country--in particular the resources in terms of contractor facilities and contractor firms. There were also bottlenecks in terms of transportation, as to how much actually could be brought into the country in terms of commodities. And therefore during the period that Kariba was being carried out, the rest of the development program should be held down so that Kariba could be digested during this period without any self-induced inflation.

In addition, we pointed out that Kariba was a very important project and that the government, we felt, could be justified in calling on the people to make special sacrifices for this purpose; and specifically that one could and should expect the people of Rhodesia to contribute out of the current public revenues toward the financing of their public investment program.

Well, the government took all of these things in good part, and part of the agreement under which the Kariba loan was made was a letter from the government in which they informed us of the general lines of economic and financial policy they were going to follow during the period that Kariba was going to be built. This included provisions on the total size of the development program, the contribution that would be made from the current budget and the total external debt that they would incur during this period and so on. On the whole the Rhodesian government lived up to its commitments and carried out the building of Kariba without any adverse repercussions on the rest of the economy. On the whole it was quite a successful operation from that point of view.

That just about covers what we were going to talk about.
Q: I just wondered if you could possibly say if there were any other projects besides the two you talked about--not projects but loans--where the loan was really made to finance a program, a sort of general purpose loan even though it might have appeared as though it were for a specific project.

Kamarck: Let me think. Of course we've had a series of Australian loans, which are in a completely different class from anything we've been talking about or in a completely different class from the bulk of the operations of the Bank. These are loans that were to some extent talked of as project or even program loans, but essentially they were the provision of a scarce kind of foreign exchange. That was even more important than the fact that they provided real resources.

Q: In other words, the loan would not have been so important if the Bank had supplied sterling, let's say, instead of dollars.

Kamarck: The only reason that the Australians were borrowing at that time, at least at the beginning of these series of loans, and I think practically throughout, was because they were getting their loans in dollars, and this supplemented the dollar supply available in the sterling area as a whole. This justified them in being more liberal in importing machinery and equipment from the United States than they would have felt justified in doing without the loan. This was, as I say, a completely different kind of loan than anything else the Bank has ever done.
Actually, I have very mixed feelings about those loans. In part I think they were useful. In net, I think we were right to make the loans, but I've always felt that the Australians never got the full benefit of Bank lending on this series of loans. We were able on two occasions in these loans to make a contribution to Australian economic development over and above the loans themselves—that is, over and above the money granted. In the second loan, the 1952 loan, the fact that we had a mission in Australia which discussed with the Australians their whole economic and financial policies, contributed to quite an improvement in those policies, both in the sense that from that point on the Australians gave much more emphasis to helping their agriculture, whereas up to that point agriculture had been starved. They also took some action to slow down and for a while even stop the pace of inflation, whereas up to that point the inflation had actually been accelerating its pace.

Then, in 1956, again we had a beneficial impact on Australian general economic policies.

But we were never able to use our lending in Australia to achieve an improvement in the kind of investment decisions that they make. And it is very clear as one goes around Australia that the investment, the public investment, particularly on the state level, is far from efficient. There is a lot of uneconomic investment going on, and a lot of investment that is going on doesn't begin to provide the kind of yields that it ought to provide. We made several attempts to try and get into that field, but each time the Commonwealth Government successfully resisted, and so far we have not been successful at getting into it.
Q: Would you say just a brief word about the reasons for the Bank's emphasis upon project lending?

Kamarck: There are several reasons. One is the reason that I've partly alluded to--this Australian case. By our going into a particular project, we've had an influence in improving or securing good management of the project, in securing improvement in the pricing policies oftentimes followed by a particular utility, in securing a more rational investment policy and so on. And that very often is quite educational as far as the other parts investments carried on by government. That's a reason for the project lending from the borrower, recipient point of view.

From the Bank point of view, there is a very good reason for project lending in that it does help to insure that the loan will be serviced; that there will be no default. When a loan is tied to a particular project, the people in the country, the general public, associate the Bank loan with that particular project. The result is that if there is a change in the government or change in the regime of the country, and there is a completely new government, or the opposition becomes the government, they can see that the Bank loan has done good and is doing good. Consequently, their willingness to continue to service an existing debt is greater than if the loan were made for some purpose which vanished as far as the economy as a whole is concerned and you couldn't identify it. So from that point of view, project lending does contribute to the soundness and safety of Bank lending.
Q: I suppose this also helps explain why the Bank is particularly fond of projects which are readily identifiable as such rather than, say, projects to finance public health or education or something of this sort, where you will be less able to see the actual product involved.

Kamarck: I don't think it's quite that so much. I think one of the reasons for the Bank's reluctance in the past to finance these social services has been the public relations point of view. Investors in Bank bonds are likely to think that Bank bonds are a better investment if the Bank is investing in activities which appear to be more directly productive than investment in education or health. I think that was a very important reason in the early years of the Bank. Then there also is what you might regard as a good, substantial reason for this in that investments in education, health take much longer to become productive than investments in electric power or railways and ports. Generally what we like to do when we are lending--and this is partly this debt repayment criterion--is to lend as far as possible for what we regard as fairly high priority project or a key project, a project on which other things depend. Consequently it makes sense if you have a choice between lending for a hospital and lending for a power station to say, “Well, if you lend for a power station, this is going to more rapidly increase income or more immediately increase income or help production than the hospital.” That's probably the justifiable reason for it.

Q: Is there anything else that you would like to add? Any other aspects of history of the Bank - the concept of credit - worthiness, for example? Would you like to say anything about that?
Kamarck: I don't really think I have anything to say on that.

Q: Might I ask one quick question about Bank organization? When you arrived in the Bank, was the economic department of the Bank participating fully in the working parties which were doing the studies preparatory to loans?

Kamarck: Yes. There was a certain amount of difficulty at that time in that I gathered, at the time that I arrived, that there was a certain amount of feeling between the operations department and economic department as to the respective roles of the departments.

Q: Was the loan department called the operations department?

Kamarck: No, I'm sorry it wasn't called the loan department. At some stage it was called the operations department.

Q: These were the two departments which were primarily concerned with loans?

Kamarck: You see, at that time the engineers and other technical people, people in that sphere of the Bank's work, were in the loan department; so that you had not only the actual loan negotiators but also the technical people in the same department.

I would say one thing here. I think the reorganization of the Bank that took place in 1952 when the loan and the economic department were merged together and cut up vertically into area departments did
lose an important aspect of the Bank's work up to that time, which we’re only now beginning to repair. And that is: when I came into the economic department, there was quite a lot of thinking and quite a lot of work done on the idea that the operations of the Bank should be geared into economic development plans or economic development programs.

Q: Generally or within--?

Kamarck: Within the economic department. There was some pressure on member countries to move in that direction.

When the two departments were merged and it was cut up the other way, this aspect of the work faded very much into the background, and it's only within the last year or so that the Bank has really begun to talk about this again--even though all during those years, everybody I think on the whole was quite conscious of the fact that the Bank lending to be most effective really should take place within the context of an economic development program. And we often would say that the indirect effects of our lending in the form of getting countries to make better use of their resources were much more important than the direct effects. Every once in a while in our operations we were able to achieve that; but on the whole this was very much a background issue. It was not one of the central issues, though there were some exceptions.
Q: Is this related in any way to what seems to me to be the fact that the survey mission reports for a time at least were not used very directly in the Bank's operations?

Kamarck: I don't think so.

Q: What about Colombia, for example? It was apparently used to help develop projects and to relate the program of the country. I sort of got the impression that there was a time when the survey missions were done to help the individual country, but they were not used directly in the Bank's work so much.

Kamarck: I really couldn't say anything about that, because in our area, you see, the area in which I worked, there have not been until very recently very many of these economic surveys or missions. There was one on Turkey. There were a lot of difficulties in connection with that, but it really had very little connection with the Bank; the Turkish government policy became impossible so that the Bank couldn't operate there. Then there was the mission to Nigeria, and there we did after a few years make a loan for a railway which was tied into the economic development program, but Nigeria was quite a special case in that Nigeria had very large resources of its own, and actually it took quite some justification for us to make a loan to Nigeria at all, because they were so well off in terms of their existing reserves. Other than that, we have had no economic survey mission in this area until last year. So I don't know. What you say may be true or may not be true, but it would be the Latin-Americans who could judge that.
Q: Thank you very much.