THE WORLD BANK GROUP HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

EVELINE HERFKENS

August 22, 1994
Washington, D.C.

Interview by: William Becker, Jochen Kraske and David Milobsky

and

October 8, 1996
Washington, D.C.

Interview by: Jochen Kraske
Q: I'm William Becker, with The George Washington University and the Business History Group.

Q: I am Jochen Kraske, the Bank's Historian.

Q: And I'm David Milobsky, the Assistant to the Historian.

HERFKENS: I'm Eveline Herfkens. I'm the Executive Director for Armenia, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, Moldova, The Netherlands, Romania and Ukraine. I insist on doing it alphabetical. I don't want to be The Netherlands ED [Executive Director] and then a lot of others. I'm proud of representing borrowers, which makes the job more interesting.

Q: We'd like to begin by asking you to describe your educational background.

HERFKENS: I studied law in Leyden University, and with also some economics, but not much. After I graduated in 1976, I joined the Netherlands Development Corporation Ministry. In 1980 I became a Member of Parliament, and for the next decade I was the spokesperson of the Netherlands Labor Party on development issues, which is, in our context, broader than just aid. It includes trade, international monetary issues, and foreign policies/international relations with the South. And then in 1990 I became Executive Director of the World Bank.

Q: Did you come from a legal or academic family? Or a political family?

HERFKENS: No. Actually, my father was the first one in the family to study, so it's basically working class, very active politically. My grandfather was one of the first members of the Social Democratic party branch in the former Dutch Indonesia. My father was always active in the Labor Party. So, yeah, I'm very political from that side.

Q: Could you talk a little bit about your career before coming to the Bank in 1990 as an Alternate and then very soon after as the ED? How did you end up in the Development Ministry? Was it a deliberate choice or was it an accident?

HERFKENS: I grew up in Venezuela, and I was as a kid already very shocked by the poverty there, so when I returned to The Netherlands for my secondary education, I only had one aim and that was doing something in the development business. Now, in The Netherlands in those years, that meant working in the Ministry of Foreign Affairs, and all the officials in Foreign Affairs had studied law in Leyden, so that was what I did. However, as soon as I got some economics—and particularly after hearing a speech by [Jan] Tinbergen; it was very important for me, that one lecture of his—it really became clear to me that economics was the relevant thing I should study, but then you couldn't do that full flush in Leyden University. And my parents told me, "Well, as a girl you should be very happy that you can go to the university in the first place; just finish
what you are doing.” By the time I had ended my education, Jan Pronk became the Minister of the Development Cooperation, and he of course said, “This is ridiculous. What do I do with all those Leyden lawyers? From now on I only want to have economists, preferably from the Rotterdam Tinbergen Institute.” Nevertheless, I was still accepted. But it was really a handicap to getting that job.

My first job at the Development Cooperation was dealing with the bilateral financial aid of The Netherlands to countries in Latin America. This was also the first time that I got acquainted with what the World Bank did, both work in the field as well as with their Consultative Groups. Later, at the end of the ‘70s, Jan Pronk left for UNCTAD [United Nations Conference on Trade and Development], and there was an enormous pressure in the Party on me to become a Member of Parliament to take over that portfolio. In our political system, you have parties where there is a division of labor within the Parliamentary Group and a lot of party discipline, so you do speak on behalf of the whole Parliamentary group. So that’s what I did.

After a decade in Parliament, I had seen enough of that. The party leadership had promised that I would become Minister, but the roulette of building a coalition government didn’t work out for me. And then I said, “Okay, then it’s over. I’ve done this a decade.” In our system, if you are a Member of Parliament you can return to the Ministry where you came from, and the position here [at the Bank] rotates between the Finance Ministry and the Development Cooperation Ministry, and it happened that this position became available for the Development Cooperation Ministry about ten months after this new government was formed. So in that context I said, “Okay, I’ll hang on another ten months in Parliament, but then I want that job.” So that’s how I got it.

Q: The dividing line in The Netherlands, then, between civil servants and politicians is not very sharply drawn.

HERFKENS: Well, it is usually, but there are a few other cases where indeed people jump from one side to the other and then jump back. So it did happen: one of our former UN ambassadors was also Minister of Foreign Affairs. It does happen, but not that often, indeed. But they always wanted me back in the Ministry, so it was for me very easy because all over that decade they had been trying to get me back out of Parliament into the Ministry. So it was a walk-over. I could choose what I wanted.

Q: If you were to describe yourself now, would you describe yourself as a politician or as a . . .

HERFKENS: Hmm. What I like of this job is actually that among colleagues there are both former politicians and officials. I’m something in between. I think that this job is a very political job, and it was only when I came here that I realized how very useful my ten years as Member of Parliament had been. I didn’t think so when I came here. I felt at first that I had wasted a lot of time on being a parliamentarian and that it would have been more useful to stay in development and get more knowledgeable on those issues.

But the essence of being an effective Member of the Board [of Executive Directors] is the question if you can mobilize majorities for your point of view, and the way to do that is, of
course--as I know as a former politician--not using the right arguments but understanding the interests of the other parties and shaping your arguments into what is in their own interests. So that kind of play, I think, is something that I really have learned. It was extremely helpful when I came here.

Barber Conable was always very amused by seeing me work like that because he was the only other real politician at the Bank. There were former ministers on the Board, but not really from countries with a democratic play; so many of the other EDs come from a technocratic background.

Q: Did your work in the North-South Committee help you in developing relationships with other EDs, understanding issues, forming coalitions?

HERFKENS: Oh, the Council of Europe. Well, I have always been working internationally, so I am able to work with people from other cultures. While some of my predecessors and some of the technocrats coming in other Part I offices don’t have that kind of background, I know Latin America very well, also the fact that I’ve been working within Europe with other countries and other nationalities has been helpful, yeah.

Q: Could I back up just for a second? You said you grew up in Venezuela?

HERFKENS: Yeah.

Q: And what was the context of that?

HERFKENS: My father was with Royal Dutch Shell and went there to help them nationalize Shell, which we all thought in the family was something fantastic, something grand, because this would enable the country to get the benefits of its own resources, et cetera, et cetera. Well, if you see how the country wasted all that since, it’s an immeasurable tragedy, but . . .

Q: What did you initially want to accomplish as ED?

HERFKENS: My agenda was very short. I wanted the Bank to implement the 1990 World Development Report (WDR) on poverty. That was it. In practice, that was a very long fight, of course.

Q: What are some of the issues that you had to focus on?

HERFKENS: Well, the first issue was, of course, to get it all translated into things that are operational, because the WDR’s are traditionally written as intellectual flagships and then they went to gather dust in bookcases. So that was one battle. And I pushed very much that we didn’t only discuss a policy paper in the Board but then we would discuss in the Board the operational directives, which was absolutely not done. The Board was not supposed to discuss operational directives. Even the Nordic chair, who was very much on the same agenda as I was, said, “You can’t do that. I mean, Mr. [Moen] Qureshi won’t accept it.” Nevertheless, I was able to do that, and so that was stage one. But then it has to do with a lot of things in terms of where does the

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budget go, what does it mean for the skill mix of the Bank, what does it mean for the field presence, et cetera. And a lot of those issues have not been dealt with yet in a fashion that I feel to be sufficient.

Q: In your experience in the Ministry and subsequently in Parliament, were there any particular issues that you were focusing on, that were becoming themes that you had?

HERFKENS: Well, I had very much raised in the '80s the social impact of adjustment. I was really the front fighter in the Dutch Parliament but also among the NGOs [non-governmental organizations]. I always participated in NGOs, on boards, et cetera, over all my life until I came here.

About adjustment with a human face, I mean that was really an issue that I still care a lot about. And right now the Bank indeed—look at all of these reports—does understand that in those years the Bank did make mistakes, ranging from you agree to have budget cuts but you don’t discuss sufficiently with the borrowers where are those cuts actually going to be made. So that issue has been very much one of the main issues that I was fighting for.

I was also the first Member of Parliament to actually raise with the Finance Ministry those kinds of issues. The World Bank and the IMF [International Monetary Fund] were not really debated in my Parliament before I became a Member of Parliament. We always ratified IDA [International Development Association] replenishments and World Bank capital increases without much debate. And I was the first person to do so: they had to really expand bureaucracy in order to be able to answer all the questions I always had. In the first annual debate with the Minister of Finance that I participated in, I raised this as the major issue. And the whole Ministry was in panic because the civil servants dealing with this issue wouldn’t even come with the Minister to Parliament for his annual debate with Parliament. So that was really one of the issues I very much raised.

I always felt that bilateral aid was sort of marginal. We can do all kinds of nice things with our budget, but if internationally—and particularly the World Bank, of course, is the most powerful institution, and I had knowledge of what the World Bank did from my own experience working with countries in Latin America. Issues of lack of ownership there were enormous. The borrowers there were complaining to bilateral donors like me—some of them with whom they felt close—what a disaster and what the difficulties they had dealing with the Bank and the Fund.

One of the countries that I was responsible for in the '70s was Jamaica, and that was, of course, those years when there were huge problems between the Bretton Woods institutions and the then [Michael N.] Manley Government, and I was very much involved in that. The Netherlands was the only country that went on giving balance of payments assistance, while the relationships with the Bretton Woods institutions were totally cut off in those years.

Q: So there were views that you actively developed in the context of your work in the Ministry?

HERFKENS: Yeah.
Q: What other sources of influence were there? Mr. Pronk, I suppose, supported this approach very much?

HERFKENs: Yeah. Well, I didn’t work that much together with Jan Pronk, actually, because he became a Member of Parliament in ’76 and I was a civil servant between ’76 and ’80. In ’80 he went to UNCTAD, and I became the spokesperson. When he was in Geneva I didn’t have that much contact with him. And when he returned in Parliament in ’86, the leadership told him, “You can come back, but you are not going to get the portfolio for development because Eveline is doing that now and that’s going fine,” which was by then a source of frustration for him. But we didn’t work that much together.

And the big difference between Jan Pronk and me, as perceived in The Netherlands, is that Jan Pronk is always busy with drafting the utopian views for 2020, while I was much more focused on getting day-to-day improvements. In our political system where you don’t—it’s not a two-party system, so you always have to mobilize other parties for your views. So I was much more focused in getting majorities in Parliament for the first two inches, while he was much more making speeches and writing articles about, you know, what was the final, ideal world in 2020, in which I wasn’t interested or in which I felt it was a waste of time. So he was always much better in getting the left wing leaders in Party Congress to be in support of development, and I was really doing much more the middle-of-the-road work in Parliament and was much more popular with the sort of moderate electorate than he was. So it was a good combination.

Q: How much of a role did the sort of constituency play that you represented?

HERFKENs: Yeah. Well, there is this sort of mixed system where on the one hand you come from a certain region, but in fact it’s not that important because if there was—I came from Arnhem and surrounding—a problem with a local hospital, my colleague dealing with health would deal with that, and the only thing I would do is tell her, you know, “Could you please get in touch with these and these people because they have a problem?”

There was a strong constituency for development, both in the Party as in the country as such, because we had such a strong third world movement: we are about the only party in the world where you had, apart from a youth chapter and a women’s chapter, also a Third World chapter. And I was the chairman of the chapter from ’77 on until—well, at ’83 I stepped down because the combination of being a Member of Parliament and leading your own constituency became sort of a source of conflict of interest, because then you tend to turn it into your own fan club, which is not a good idea.

But there is a very strong Third World movement in the country, which is not only within, among the leftists, it’s way broader. It’s very strong among Christian Democrats. And I was, for instance, better in communicating with that middle-of-the-road Third World movement than Jan Pronk was. So I always had a lot of preference votes: in our system you can have this preference vote. You can either vote for the leader on the list or you can vote for someone lower on the list. And I always got a lot of votes myself, which is clearly a vote of the constituency for development, and that was the way it was interpreted. And it really strengthened the constituency for development issues within the Parliamentary group that I got that amount of
votes.

Q: And the various NGOs were in a sense also kind of represented on this group, then?

HERFKENS: The Third World movement within the Party was sort of also the intellectual leader for much of the not-Party-related development movement: our national annual conferences were the gatherings of the Third World movement. But you have an enormous, broad range in my country. Some of them are basically only dealing with issues of health, and with them I would work together to see if we could promote legislation that the pharmaceutical industry would not export medicines to the Third World without having the information in the language concerned. So that was one particular issue, as an example. But you have an enormous range of Third World NGOs, also politically varied. Some of them were on the left of me and they would be attacking me for not being radical enough.

Q: Now in addition to these social issues, adjustment with a human face and so on and so forth, you were also I suppose strongly influenced by environmental concerns, by women’s concerns, but these various other issues that . . .

HERFKENS: More women than environment. I mean, on the environment I was much more concerned about the national environment than environment as an issue in those years in the Development Cooperation. And I also was very irritated about the hypocrisy of part of the environmental movement as far as it looked at the Third World—to keep it the way it was, basically anti-development. And I was very outspoken in this, on this issue, that countries in the Third World were entitled to increased energy use, et cetera. I mean, pre-Brundtland [Gro Harlem Brundtland, chair, World Commission on Environment and Development] I already talked about their entitlements to pollute, but it was accepted by the environmental movement because I was supposed to be okay on the national environmental front. I never had a car. I was politically correct. I was one of the—maybe the only Member of Parliament who never had a car and always used public transport, et cetera, so it was accepted. But I was very outspoken against this extreme green, romantic nonsense.

But women’s issues, yes. That was very clear from the very beginning I was within the Ministry, one of the first coordinators of women’s issues in the Ministry, in ’77 or so, one of the first coordinators. Before we had a full-time one, they asked me to start developing a policy and thinking about that.

Q: Was that an issue in The Netherlands generally about women . . .

HERFKENS: Women as such was an issue, and the fact that we already were thinking about it within the Ministry, about women in development in ’77, is quite good. I mean, that’s about a decade earlier than the Bank.

Q: Not in the United States.

HERFKENS: Yeah, but once the United States picks up an issue, there it goes.
Q: Now, as the ED for countries at different stages of economic development, how do you balance the varying interests of your constituencies? Some of your countries are Third World countries, while others are Second World, and still others are advanced industrial nations.

HERFKENS: That's exactly what makes the job interesting, by the way. The way to do it is in, first, not taking that split that seriously and, second, really looking at the serious concerns from both sides.

The most typical debate was about the disclosure policy. Most of the countries that I represent come from an extremely secretive kind of society, so some of what I just do is say, “Come on, guys. This is nonsense to them.” But on the other hand, it was also very hypocritical the way that The Hague, but particularly also Washington and some other capitals, where—you know, government minutes are made public in The Netherlands only after 30 years, so it's really ridiculous, then, to ask the Bank to force publication of documents which contain very important information about intentions of governments. For instance, if the Government of Macedonia would announce today what they were planning to cut next year, it would be political suicide. They won't be able to win the elections. They won't survive. So you have to find a kind of balance on the disclosure issue.

And the interesting thing is that over the years—actually, already quite early—Barber Conable felt, but Ernie [Ernest] Stem definitely today, that if there's really a Part I versus Part II problem they would check what my solution was, what my position would be, because that has turned out to be often a sort of position which was acceptable to both sides, even finally to the U.S. But it takes a bit more time to explain to the U.S., you know.

The real problem with this institution is that there's the G-5 arrangement (it's my feeling). If only Germany would represent Croatia, if only the U.S. would represent Armenia, if only ... One borrower is enough to understand this institution from the real important perspective of our clients, and the real problem in the Board is that there are five chairs who are absolutely incapable of ever seeing the institutions from a client’s point of view. That is really a problem.

The Nordics, by the way, have improved enormously in this area. They were extremely donor-centric, you know, like The Hague (I always water down the donor-centrism of The Hague), but since they began to represent the Baltics, there's much more reality in their positions. It’s a very interesting example of how a chair becomes more relevant.

Q: Although the Nordics always tended to take in any kind of conflict the side of the borrowers and of the poor nations.

HERFKENS: Yeah, yeah, yeah. Well, it depends on what. On environment, on women, on those issues. On disclosure they would not. There are some very holy issues on which they wouldn’t. But, indeed, on other issues they would tend to do that.

Q: So you are saying that there has been some improvement in the G-5 on the Board?

HERFKENS: No. No. The G-5, no. There has been no—the Nordics is not G-5. G-5 are the

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five chairs that, according to arrangement, never have to represent any except for themselves.

Q: They are the appointed representatives .

HERFKENS: That’s right.

Q: . . of the major shareholders.

HERFKENS: Yeah.

Q: Have you seen any changes in the G-5 over the last five years or so?

HERFKENS: Well, the moment for change of this arrangement was when the former Soviet Union fell apart. Within a year’s time about 19 new members joined the Bank. All of them claimed to be European, so they all wanted to be represented by a European chair. Luckily, Switzerland shouldered part of the burden, but I think that it was unfair to dump the remaining countries on the Belgians and the Dutch. It’s a particularly large burden since all of these countries are new members. It’s easy to represent India. India doesn’t need its ED to help it do business with the Bank. On the other hand, those new members really need a lot of assistance.

Q: Did you ever raise this with the Germans .

HERFKENS: Yes.

Q: . . or the French or .

HERFKENS: Yes, yes. I did. I did.

Q: . . the British?

HERFKENS: I did. Yeah.

Q: Was that also raised in Brussels?

HERFKENS: No. Brussels is not relevant. Brussels is much less relevant than people think that it is in Washington. Like Washington is less relevant. The Bank is less relevant than people think in Europe, but no, no, no. It was—it didn’t really work.

One of the problems was that, you know, the Americans were utterly disorganized in that particular year, so there was no one, and that’s, of course, the most important partner you have. But if I talk now, now finally they say, “Yeah, well, indeed, what a lost opportunity,” because only for their own effectiveness. The Americans are very frustrated because they don’t understand what’s happening in the Bank. The reason they don’t is that they are deprived of the insight of standing next to a borrower and seeing how it goes in the relation with the borrower.

Q: Speaking of the break-up of the Soviet Union, you also have responsibility for Yugoslavia or
for what was once Yugoslavia. What special problems do you have with that part of the world?

HERFKENS: Well, the moment that the civil war started—I mean, in those cases the ED has nothing to do. In terms of workload, it was a country with a lot of needs. It was the typical problem country. When the [Ante] Markovic regime failed and civil war broke out, there wasn’t much for me to do. After Slovenia and Croatia were recognized as independent countries, they joined the Bank, and my office began to represent them. Slovenia later left my constituency. The real workload, however, was with Macedonia, and will be with Bosnia. In Macedonia’s case, their arrears to the Bank were so large that initially the Bank staff didn’t even want to address the problem. They thought that the situation was hopeless. I found that position unacceptable. Macedonia as part of Yugoslavia was one of the founding members of this institution. It had a debt only because it was a part of Yugoslavia. By itself, it would have been too poor to ever receive the amount of loans that Yugoslavia did. I found it utterly unacceptable.

We had to play a lot of poker to get the Macedonian aid package through. We told Jan Pronk that the Bank was very eager to work with Macedonia, and we told the Bank staff that Jan Pronk and the Netherlands Development Ministry were going to take the lead on Macedonia. We were bluffing on both sides, telling the Bank and the Development Ministry that the other guy was going to solve this matter and asking them to help. That was a lot of work because until we got them both feeling good about working on this exercise we had to do a lot of shuffling between The Hague and the Bank. That was a lot of work, and it still is because the situation is extremely fragile. Bank procedures are tough, and there’s little understanding of Macedonia’s political problems. Furthermore, on the other side, the international community was just not acting as it should.

I don’t know to what extent you want to talk about Macedonia. I can talk about that for three hours!

Q: Well, not three hours.

HERFKENS: No. It’s tragic; it’s very tragic; it’s an enormous tragedy. So this country, with a debt load which it would never have had in the first place if it wasn’t an independent country, then is totally choked economically. It has the U.N. embargo on the northern border, and the Greeks closed the border south. So the country—and there’s no good east-west connections.

Then, in terms of international assistance, when the Berlin Wall fell the Western Europeans said, “Okay, balance of payments assistance to countries in transition is being done by Brussels.” Now, that served most of the countries well. But nobody realized when they made that decision—and people are still very slow to want to realize this—is that one member state can actually block balance of payments assistance, even technical assistance, anything from Brussels, coming from Brussels. So the Greeks are blocking that. And the other members of the European Union are extremely slow in recognizing that, as it can’t come out of the Community budget, they should create a bilateral facility for this purpose. But in the present budget context in the European Community (or the European Union by now), nobody is really eager to recognize the need to find more money in any of their pockets. So that is going very, very slow.
In the meantime, the Americans, apart from being hampered by a Greek vote, also have this attitude: "As it is a European backyard, let's first see what Europe does before we add something." The Japanese, the same. So here we are, and it's absolutely Catch-22. Nothing is happening, and nobody is footing the bill. It's only the Bretton Woods institutions that are trying to be helpful, but they are very scared because it's a risky proposition if others don't come up with money, given the amount involved. And there are elections coming up in November. And it is just—they won't survive (politically speaking) unless the international community starts helping them out a little bit.

Because there's no international assistance coming from others, the IMF feels that they should cut even deeper into their own budgets. And this is just before elections. You can imagine, you know, what that means.

And this is the dove-type government. They are multi-ethnic, trying to keep peace there. It's the only country in the whole Yugoslavia which managed to get out of the mess without civil war. And it's very multi-ethnic, so it can go wrong any moment. And as a European, I can tell you that Balkan history shows once Macedonia is involved, if there's war there, Bulgarians and Greeks will jump in and, you know, it will be all over the place.

But everybody in Europe is very short-sighted. And that's a lot of work. I mean, the only reason I go to something totally useless as the Bretton Woods Committee conference is that I know that Mr. Heller from Germany is there, and I can bump into him over coffee and talk Macedonia and explain to him if the German Presidency of the European Union in the coming half-year is going to be useful, the real thing they should be doing is solving this problem of European balance of payments assistance. So I'm very much focused on trying to keep Macedonia going.

The first debates are starting now on Bosnia, so I've been talking with staff already about that. And that's going to be even more difficult, by the way.

Q: The Bosnian?

HERFKENS: Yeah. The amounts are bigger, yeah. But I believe if we can put it on the table now, while it still is hitting the front news every day, it's easier to get money out of pockets than if we wait longer. I mean, as Bretton Woods took place before World War II was ended, we should solve the economic problems of Bosnia before the war is ended because now you have the atmosphere in which you can say, you know, really, this is going to be so many hundred million dollars and we better have it on the table.

Q: But they are not even members as yet, are they?

HERFKENS: No, but that's the ridiculous Catch-22. I mean, those are the only countries in the world ever that have a debt to an institution where they are not even a member.

One of the things, by the way, typically of what sometimes EDs do if they are doing their job well, is that the original version of the resolution for membership of the inheritors of Yugoslavia, the version that came from staff, was that they could only become a member after they clear their

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arrears. Now, that language would have excluded any Bank help in the arrears clearance. And this is typically what I found is terrible of the Bank. It's such a big institution that this resolution is written by a combination of Legal and the staff of the region. None of them know the arrears clearance policy of the Bank, so they weren't aware of the fact. Now, once something is in a resolution to the Board, Management is so damn reluctant to change the language. I mean, I've had this several times now, and I have to mobilize a majority of the Board to change the language. It shouldn't—they can become a member once there is an agreement about a path towards arrears clearance because then the Bank can participate. But the participation of the Bank in arrears clearance is that you bring loans to the Board which you don't disburse yet but you disburse at Hour Zero, by the time that you know all the money is there. Now, as long as it's not a member you can't bring loans to the Board for a non-member. And this is a typical thing that they—I mean, it's really ridiculous, actually, that an ED's office has to look at this kind of thing, but we have this overview of all policy, so ... But that was a typical thing that I had—I mean, nothing could ever have been done for Macedonia nor for Bosnia if that language would have been in the Bank's final resolution.

**Q:** Talking about another difficult political situation that also impinges on your work, has Israel's agreement with the PLO [Palestine Liberation Organization] had an impact on Israel's view of the role of the Bank?

**HERFKENS:** The main interest of Israel in my constituency traditionally has been procurement. That's the only thing that they were interested in. I've been working for years, but until now in vain, to make them an IDA [International Development Association] donor. I've told them that it could be a big boost for their international image. If Poland and Mexico can do it, why can't Israel do it? The recent Peace Agreement has required that my office do some things differently, but only in a few incidents. One has been that Israel was eager to have the World Bank coordinating the aid to Gaza and West Bank. The UN has not treated Israel well, and Israel believes that the European Community is firmly in [Yasser] Arafat's corner. So they really felt very much that the World Bank should do it. And their membership of the constituency meant, of course, that then I can convince The Netherlands to plead for that, et cetera. So it has been a helpful movement of mine there to get the Bank, win that battle, which was particularly with the European Community at that stage, more serious than with the UN. So that was one issue.

Another issue had to do with some mistakes that the Bank's Legal Department made on some document. Mr. Ibrahim F. I. Shihata had used language which was not consistent with the original Peace Agreement, so I had to lobby for changes. There was also a problem with another legal document where a reference was made which could be interpreted as the PLO being treated as a possible future member, which would suggest future nationhood. Israel, for domestic political purposes, had to be able to tell its population that the nationhood question would not be touched for another two years.

I did have to do some things for Israel, but generally it was a matter of a few phone calls. Israel really doesn't generate the kind of work that Ukraine, Romania, Macedonia generate on a daily basis. So I finally convinced the Israelis—it took four years—that my office would no longer get involved in procurement issues on their behalf. It has been the position of my office that it

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would be unethical for me to be on the Board of an institution while involving myself with procurement for Israel's own national interests. The Netherlands and all the new members understand that this office is not involved in procurement. Israel needs to understand that as well. And Israel until now kept insisting that there would be an Israeli in my office to do that, but that has been solved now.

Q: This is also not a view that is shared by other EDs.

HERFKENS: I'm afraid not. I'm afraid not.

Q: Some of the EDs have been very eager to kind of represent their own...

HERFKENS: Yeah, yeah. But I think that's absolutely wrong. I think it's on principle a conflict of interest. I mean, you cannot be on the Board of an institution—if I make a phone call to staff, they, you know, expect me to phone them as a member of the Board of their institution and I shouldn't use that position to lobby for Dutch banks or Dutch consultants. I really should not.

Q: Who among the EDs did you work with most closely?

HERFKENS: I've always worked very closely with the U.S. office because I think they are very important. I always try to explain my position to the U.S., and it has been very useful. When we had huge fights three years ago about their position with IFC [International Finance Corporation], I was the only person with whom Pat [E. Patrick] Coady was still on speaking terms because I made the effort to maintain a personal relationship with him. I opposed him like hell, but I always took care to explain why. I have a good relationship with Jan Piercy, and I also have good relationships with a lot of people over at Treasury.

Obviously, I also had a close working relationship with the other Nordic countries. I also stayed in touch with Gerhard Boehmer, the German ED. The Germans felt that it was a mistake on a lot of issues for the G-7 to exclude my chair, so Gerhard would always update me on whatever happened in the G-7. That was helpful.

I've always worked with the British office, but our relationship is based more on personalities than on a common agenda. I've also been working very closely with many Part II countries. I was naturally drawn toward the Latin Americans because of my background. The Africans have a high priority on the Dutch agenda, so they have a good relationship with me. Personalities also play a role. Mr. [Othman] Aris is a very effective Executive Director, so I find it worthwhile to talk with him often.

I've seen a lot of people come and go, which, by the way, is one of the serious problems of this institution. By the time an Executive Director starts to understand the workings of the Bank, he/she leaves. That's a serious problem for the effectiveness of the Board.

Q: And what would you say is the biggest difference between working with a body of this kind and working within a parliamentary body in The Netherlands? The similarities seem very
clear, but what’s the biggest adjustment that you’ve had to make?

HERFKENS: I was quite surprised by my fellows EDs’ complete lack of knowledge about the issues that they are supposed to be dealing with. It was really shocking. You would expect Executive Directors to be aware of what the Bank is about and what development is about. The explanations of this phenomenon are different for different regions. I think it’s rather ridiculous for the U.K. to always send people with an extensive Treasury background. They are excellent people, but their development background is so thin that they have trouble getting up to speed. As for the Part II EDs, there is this utter lack of understanding of what is important in other regions. A Latin American ED just went on an EDs’ trip to Africa, and the trip was so revealing to him that he felt that every new Executive Director should go to Africa. I say that’s nonsense. A country should start sending people who are already familiar with Africa’s problems. The Bank shouldn’t pay for the education of Executive Directors.

Q: How creative do you think the Board has been in handling its relationship with Management? The significance of the Board vis-à-vis Management has sort of changed in the course of time, and it depended always very much on who was the President and how he was perceived, how aggressive was he being with this. There’s a story that when [John J.] McCloy, after he had taken over the Bank and he had, you know, started effectively muzzling the Executive Directors who had been sort of totally in charge before, a story that they were supposed to have a picture taken of the Board, and one of the EDs said, “I suppose we should be holding our rubber stamps in our hand when the picture is taken.” How do you see the role of the Board now, and over the year that you have spent here, has there been any shift in the role of the Board and the significance of the Board?

HERFKENS: Let me first say that the Board’s ineffectiveness in this area is its own fault. It’s a cheap shot to blame Management. If I were a Managing Director or Vice President of the Bank, I would treat the Board exactly the way that the rumors say we are treated (as mushrooms: “keep them in the dark and feed them shit.”) Taking that as a given, I also believe that the Board has made a very serious effort over the last four years to be taken more seriously. However, the outcome of this effort depends completely on the extent to which the Board takes itself seriously. The EDs must communicate among themselves and form common positions. That’s the only way to increase the effectiveness of the Board. I think the recent procedural changes have been extremely helpful, but we can’t avoid the fact that we must communicate more effectively with each other. I fully agree with Moises Naim, meaning his whole committee report .

Q: Having this streamlined .

HERFKENS: Yeah. And spending more time because of that on policies, strengthening. The latest addition to this is the excellent effort of Jorunn Maehlum, that committees can do more work of the Board so that the Board can be relieved of that, and et cetera. So I think that process as such is very helpful.

But, still, the degree to which the tools we achieve through that process are being used by us is totally dependent on the way that we act ourselves. And sometimes we do a good job, sometimes we don’t.

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The history of the Inspection Panel is very interesting in this regard.

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

**HERFKENS:** This was an initiative that originated in the Board conference room, where it had proponents and opponents. Eventually we hammered out a compromise among ourselves. That was the week we talked among ourselves and asked why the Americans wanted this. Why did [Fritz] Fischer want this? Why were Aris and [Nicolas] Flano prepared to support this? What were the real problems [Bimal] Jalan had with it?

Q: Maybe we can talk about this Inspection Panel and this disclosure policy a little bit. I suppose the origin of the Inspection Panel was the [Bradford] Morse Commission.

**HERFKENS:** No. It was way before that. I place it way before that.

But, you know, I was also instrumental—I don’t know to what extent—in forming the Morse commission. I was leading the G-10 group dealing with Narmada then, but it was indeed within that context, the context of this particular problem, that the idea of having what in The Netherland and Germany aid ministries exists in terms of aid inspection units had been advocated by me already. I had advocated the formation of an aid inspection unit in the Joint Audit Committee a year or two before the Morse committee was established. Fritz Fischer soon became a member of the Board, and he was also very interested in the aid inspection concept. In order to campaign effectively for this idea (or any idea) in the Bank, you need to have the Part II nations on board. There were two clear candidates for me to approach: Flano and Aris. Both had suffered in their region unjustified criticism by certain NGOs, Flano on the Bio-Bio project and Aris on the Pakmun project. It is very unhelpful to the borrower if NGOs lie, northern NGOs lie, because part of the problems in those two projects—I mean, both sides were wrong in both cases, but part of it was that there were just lies expressed by U.S. NGOs here about the actual situation in those projects. They knew better than anyone else that it was also in the borrowers’ interest to have such a mechanism which could uncover the true impacts of Bank projects.

In the meantime, I remained in touch with the American NGOs. I worked closely with Brad Bradlow, a Canadian professor. This relationship was important, for it shaped the NGOs’ attitude into something more constructive. If they campaigned against IDA, for example, I encouraged them to be in favor of IDA. However, in the process I suggested areas in need of change that they could focus on, and eventually they picked up that agenda.

Although Bradlow had envisioned the oversight panel as more of an ombudsman position, we were basically in agreement. Meanwhile, the four original authors of the memo and the U.S. had begun discussions, and the Swiss, who had recently become members of the institution, loved the idea. In fact, the Swiss came up with an elaborate compromise proposal between the Americans on the one hand and our proposal on the other hand. Later on, we had several meetings about the
details, and then we had some meetings where we invited Jalan, to try to appreciate the views of his opposition and to translate that appreciation into another set of amendments. Finally it was done.

Q: Did you find the Management generally ready to embrace the agreement?

HERFKENS: [Lewis T.] Preston initially liked the inspection panel idea when he first saw the memo, but soon thereafter we saw Management trying to kill the proposal. This wasn't the first time that I've had that experience. However, in this case the U.S. Congress was extremely helpful because they threatened to hold up the IDA money, and Management eventually changed their position. Sometimes I just don't understand the Bank's upper Management. Preston's gut reactions are very often in accordance with my own views, yet after these sessions with his Managing Directors, he mysteriously changes his position.

Q: And you think the way the inspection panel has been finally agreed to meets the purpose.

HERFKENS: Absolutely. It's exactly what I campaigned for from the start, because I had to compromise on a couple of issues to get the other three signatures, and particularly there were some German points where I didn't agree with but accepted just in order to get the German signature. It was a compromise position of those four, and the further process actually threw out some of those things. Again, that was perfectly helpful, in my view.

Q: Would you expect that the inspection panel will be a very active part of this organization, or will it be more reserved for really exceptional . . .

HERFKENS: Well, I think the NGOs will take care that it will at least be very active in the first year. I think that its existence as such will be very helpful. I mean, even if it will never be used, the fact that that's there creates incentives for staff to take issues more seriously, which they didn't do before.

Q: Well, obviously the attempt will always be to avoid a situation where the panel becomes operative, you know.

HERFKENS: Yeah, yeah, yeah. Well, that's a very strong incentive to live up to the operational directives, because that is exactly the criterion.

Q: Now, what about the disclosure policy? You mentioned earlier that you were able to work out a solution that reconciled the inherent conflict between borrowers and non-borrowers.

HERFKENS: In the last stages of the debate, the real point of conflict was that the Bank was going to send a letter to the borrowers saying that they intended to disclose this, that and the other. Meanwhile, the borrowers maintained that the Bank had to get the consent of the borrower to disclose every document and every project. Eventually we hammered out a compromise in my office. The Bank would send a letter notifying the borrowers of each disclosure, and if the borrowers didn't respond within three months, then the disclosure would go

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Q: Do you feel that your constituents are happy with this compromise?

HERFKENS: Well, I didn’t get any complaints until now. But the country that complained the most, Ukraine, didn’t get any loans, so that explains a lot. We didn’t need a disclosure policy which basically served the needs of the U.S.-based NGO community.

And the issue that I’ve been fighting for now for several years but with not enough success yet—but now it’s coming, finally, with the appointment of an external person—is to develop communication strategies in our borrowing countries, because I think that’s the only thing that matters. And even from a P.R. point of view, decent NGOs in the North are basically led by what their southern counterparts tell them, so unless you tackle the issue there, there’s no point in communicating with Oxfam if what Oxfam says is basically solely based on what African NGOs and African students and professors in universities tell them. So we have to tackle that from the start.

Now, we need the information so that—anyway, I felt, apart from the whole transparency and disclosure point, I felt from the very start, even before I came here, that one of the problems of both reform and adjustment (which is the same thing, but we happen to call it “reform” in countries in transition and “adjustment” elsewhere) is the lack of political constituency for it. And the economic illiteracy in several of our member countries is the main issue here, and unless you tackle that, we will go on in this routine of every government that signs a program will fall within a year. Dealing with this illiteracy is increasingly happening, but still very marginal.

I appreciate—[D. Joseph] Joe Wood is making a very serious effort in one of the recent Bangladesh adjustment loans where they tackled the vested interests in the jute sector with this television campaign. Also in some of the African regions some of this is happening.

The Res Reps [resident representatives] in both Sofia and Kiev are very active and understanding that the only way to get reform going, to keep reform going in Bulgaria and get it going in Ukraine, is if you educate the public opinion, so they are organizing seminars for the media, et cetera, et cetera. But it’s very dependent on the personal agenda of the staff working on those countries. And that is really a problem.

However, at the Vice-Presidency level there is much less understanding of the importance of this. Regional Vice Presidents hardly give interviews when they travel. The Bank has free publicity. As a former politician I know that’s a scarce good! Use it. We don’t use it: our Vice Presidents, our Directors travel around without giving interviews. And it would be so helpful, and we are helping our borrowers, at least the borrowers that deserve our help are helped if we would be more active.

And I’ve made that point during the debate time and time again. And I told the U.S., “I will support your PIC [public information centers] centers, although I think it’s a waste of money, but I will support you if you give support to my proposal for outreach in Part II

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countries.” And so they did, but it was lip service. And so nothing happened for all that time, not partly because—well, Ernie Stern told me, “We are reorganizing this. Just you wait. In three months’ time . . .” And then three months later, “No, no, it will cost us another three months.” Now finally the appointment has been made, and I hope with this new person we can really develop a strategy.

Q: In this respect, of course, the Bank is now ahead of the IMF.

HERFKENS: Oh, yes.

Q: Are you working with your colleague in the IMF on the disclosure issue?

HERFKENS: Not on this issue. He is a very classical bureaucrat, so he is like average Bank staff; he doesn’t understand the value of free publicity, either, so there’s no point. I work very closely with him on the concrete countries. You know, we phone each other almost daily, and--how the Fund is concerned that the Romanian phase-out is going to be delayed and that would mean a delay for, et cetera. That’s the kind of daily handwork dealing with our constituency. That’s where I work closely with him. For the rest he has a very different point of view on a whole range of issues, so there is no point in discussing it, like the other chairs do with their . . .

Q: Getting back to the issue of ED quality, how does one upgrade the level of the Bank’s EDs? Although the new American ED is quite competent, she is not a prominent public person nor does she command the public's attention. Do you feel that EDs should be people of greater visibility?

HERFKENS: That’s a difficult question to answer. The American case—it took one and a half years for the Administration to appoint an ED--highlights the Bank's low priority on the U.S. government's agenda. In my view, the people a country sends as its representatives to a multilateral institution are a direct reflection of its regard for that institution. Unless the Bank becomes more relevant to the policies of shareholder countries, I don't see the institution improving much.

In my country, I am important enough not to be hampered by instructions from lower level bureaucrats. However, the positions of most of my colleagues, on the other hand, have been captured by the bureaucracies. As a result, since they must one day return to those bureaucracies, they do whatever pleases their respective institutions, which makes it very difficult to negotiate. At the end of the day, the only thing that really matters to the British or the German ED is how his/her Treasury or Development Cooperation has perceived his/her actions. The mindset, in other words, is wrong from the start.

This problem is not limited to Part I countries. Part II ministries also exercise a large measure of control over the representatives that they send to the Bank. I have this problem in my own office. The people coming from Romania, Bulgaria and Ukraine remain here only for a few years and then they return to the Ministries that they came from; therefore, their only incentive, career-wise, is to get as much money as possible for their countries with as few conditions as possible. They are not interested in a broader agenda. As far as they show any interest it’s more
out of personal loyalty or solidarity with others than it is because they feel that they should be doing so. I mean, it’s not regarded by them, by any of the people of the borrowing countries in this office, as being part of their job, I mean to go to the Board... That’s a problem.

By the way, the same in The Netherlands. If you look at the EDs, they started out to be really high-level political figures: [Pieter] Lieftinck, [Johan Willem] Beyen, et cetera. But it has been going down, and it really became captured by the bureaucracies. Now, I’m a sort of exception in this because I have this double background, but it’s that.

Q: In Europe during the last decade there’s been a change in attitude towards social democracy and the welfare state. Do you think these changing attitudes have had an impact on the Directors?

HERFKENS: No. I don’t think so. The Christian Democratic parties in Germany, Italy and The Netherlands would claim that they have had as much to do with the construction of the welfare state as the Social Democrats. Continental Europe basically favors the welfare state while the Americans criticize it. The whole debate on the IFC capital increase was an American ploy to try to get the Bank to do more for the private sector. In that debate, Europe voted as a block against the U.S. Remember this was two years ago, when there were virtually no Social Democratic governments in power in Europe. So it’s much broader...

Q: Broader?

HERFKENS: The views are much broader. And if you look at the minutes of the debate just before the recess on the outline of the WDR on labor, you really feel there is a European sort of point of view about economic efficiency and the social trade-offs. It just came out, that debate. It was interesting; that outline brought out this cultural difference.

Q: But doesn’t the balance of power in that debate shift, though, with all the problems that the welfare state, that model, the social welfare model has been having recently? Does that make it more difficult to have meaningful discussions...

HERFKENS: But I wouldn’t call this “recently.” This debate about the welfare state is about fifteen years old.

Q: Right, right. But...

HERFKENS: And, you know, I perceive the Social Democratic parties, except for maybe the British Labour party, have arrived on another point of view on this already about a decade ago. So it’s not really an issue which is today’s.

Q: What about what we might call “chastening experiences”? For instance, in terms of the impact on the EDs and the...

HERFKENS: Chastening?
Q: Chastening of—I’m thinking of the Swedish experience in Tanzania where ..

HERFKENS: Oh, yeah, but we had that debate about that also a decade ago. I mean, really questioned that OED [Operations Evaluation Department] report comes out now, but I can tell you we had serious debate within our Ministry of Development Cooperation in ’78 on Tanzania. And a lot of the development cooperation that still went to Tanzania later was partly because we are co-responsible. No, that debate is also way older than today’s.

I mean, nobody, nobody of the European EDs on the Board would challenge that of course you need a vibrant private sector anywhere. The thing that we did challenge was, you know, how do you get there in Africa? How do you get there? Not that that would be the final point, but the U.S. tended to be extremely simplistic about this. And you have to read Moises Naim’s speech in the Board on this issue of the IFC capital increase and the IMF and the U.S. position on this. He was appalled by the U.S. position because, he said, exactly because private sector development, the privatization is too important to be captured by that kind of simplistic American . .

Q: I suppose that the American position in that instance was less a matter of ideology or—I mean, I never thought that they were really serious about trying to get the Bank to do all the things that . .

HERFKENS: Well, they definitely acted as if they were.

Q: They said they didn’t want to work on the IFC capital increase, and they kind of put up conditions that were, you know . .

HERFKENS: Yeah, yeah. Unacceptable anyway, yeah.

Q: . . were going to be unacceptable. And supposedly— I mean, the explanation was that whoever was then in the Treasury . .

HERFKENS: [David C.] Mulford.

Q: He had to decide between the IFC capital increase or some other kind of outfit that he wanted to promote, and he decided he was going to put his eggs into the other basket.

HERFKENS: Well, there was something, the Inter-American Development Bank thing, yeah.

Q: And that was supposedly the origin of the whole intransigence.

HERFKENS: Yeah, I’ve heard that, indeed. But if that would be true, which it might, then the U.S. ED has been acting extremely unhelpful because if that’s the real reason, the way he should
do it . . .

And I think the new Administration is doing this business way better. Both Jan Piercy and Susan Levine, et cetera, they’ve come to me and said, “Listen, you know, we’ve got this Congress,” and they said this and that and the other, “Please, I don’t agree with this, but we really have—we are living with this, and please understand,” et cetera. If the U.S. ED would have come to us and said, come out, “The Treasury just can’t afford to go to Congress with an IFC capital increase at present. Please understand my position and do whatever you think is wise to do, either move ahead or please wait if you still want us to be aboard,” then it would never have got to a situation which has been contributing to the fact, by the way, that Barber Conable left. I mean, he was so fed up with Mr. Mulford’s little games.

And that is the interesting thing of the new Administration people. I don’t know if it’s just personalities or a different line in—whatever. They really act differently. They really say, “I’m sorry. You know, we have no room to maneuver here. Please understand us.” And they apologize. Now, the way Pat [E. Patrick] Coady acted was that this was a genuinely, deeply felt American position. And that created all those problems. I mean, there was no way to communicate. He really advocated seriously—not only in the Board but also in the corridors and personally—that the U.S. really had decided that this institution should give money to the private sector. Privately, without government guarantees.

Q: He probably really believed that.

HERFKENS: Well . . .

Q: I don’t know. I have the feeling that maybe communications between him and Mulford were also not sufficiently .

HERFKENS: Yeah, that is true. Yeah.

Q: . . . coherent and clear to give him the confidence to go and say, “Look, this is only because” this and that and the other. So he . . .

HERFKENS: Well, I later found out that actually Pat Coady on other issues had taken positions which were really not as strong as Treasury had meant them to be. So it’s also a bit of a personality problem. Pat Coady genuinely believed in that agenda himself, apparently.

But it was a destructive atmosphere. The only good thing of it was it brought the Europeans together for once.

Q: Turning to another set of issues, how should the Bank address the needs of its newer members? You’ve mentioned that the Baltics, Eastern Europe and the former Soviet Union have begun to approach the Bank in search of loans.

HERFKENS: One of the problems that I have had in representing a whole range of those new members was that the Bank, in my view, was very slow to create departments to deal with them.
The Bank tends to follow the G-7’s political agenda on those kinds of issues. When the Berlin Wall fell, there was enough staff to deal with Poland, yet there wasn’t any staff to deal with Bulgaria and Romania for quite some time. I found this unacceptable. It really was not.

And then you got this reorganization, so [Willi W.A.] Wapenhans didn’t get the staff, or it was not one of his priorities to really create the departments dealing with that part of the world. And then finally there was a department created for the Balkans, which was the Balkans plus the Soviet Union, which was supposed to be taking another one or two years to be active, Russ [Russell J.] Cheetham being director of that department. And then the Balkans—then suddenly the Soviet Union started moving, and again that particular department of the Balkans was without really any commitment or people in it also. So I really had a lot of problems representing those new members while the Bank didn’t have the organizational resources to help them.

In spite of the Bank’s shortcomings, there’s always an individual staff member that saves the day. In the case of Bulgaria, John Wilton single handedly oversaw the Bank’s efforts in that part of the world. He was an excellent person, and he did the shortest structural adjustment loan ever in the history of the Bank; moreover, it had the lowest level of conditionality and the firmest grasp of the political constraints. Romania, meanwhile, was very slow to get their act together, so, in the final analysis, the Bank’s delays didn’t really hurt them that much.

When the Soviet Union eventually became a special department, the political agenda was Russia, Russia, Russia, and maybe a little bit of the Baltics. Ukraine and my countries in the Caucasus were terribly neglected, and it took about a year before another reorganization created a new department that focused on this area’s problems.

The Bank has been extremely slow in creating departments to deal with its new members, which I really blame them for, partly because it did coincide with the new president and the reorganization that was the result of that. Second, they have been extremely slow to understand—but by now they do, but now we are two years later—that unless you have field representatives there’s no way you can get the dialogue going with those economic illiterates in that part of the world, the new members.

Q: Beyond the organizational issues, though, there are the larger strategic issues of resource allocation. How is the Bank to avoid an overly expanded agenda in dealing with its members? Where are the resources going to come from? How should existing resources be redistributed?

HERFKENS: I don’t think that there’s much of a problem in that area. In terms of IBRD [International Bank for Reconstruction and Development] money, we’ve got enough headroom to double or triple our lending. There is a problem, however, in terms of IDA money, but very few of the new members have become IDA eligible and most of them are pretty small. The Bank should use this situation as an additional argument for the coming IDA replenishment. But in terms of resources, I don’t think that there is a problem.

Q: Doesn’t Mr. Preston feel that the Bank needs to be a leaner organization?
HERFKENS: That is an Anglo-Saxon agenda. It's an Anglo-Saxon agenda to reduce the Bank. My position has always been that the overhead of the Bank is the smallest of any aid agency I know. Compared with the Dutch Development Cooperation, compared with UN agencies, compared with anything you want, (a) the overhead is the smallest, and (b) we do way more than just handing out aid. We've got this research capacity that everybody wants us to keep. We have this coordination role which everybody wants us to play. It's really rather unreasonable, therefore, to demand that the Bank become smaller.

Now, I'm not saying that there isn't any room to do a bit about the amount of time people spend communicating with each other in this institution, but I think that's all very marginal. There's a lot we can do about our own procedures and about being more effective. However, these measures are helpful, not because we are too big but because we need to have our people work on relevant issues instead of the perfect version of the 22nd draft of some paper.

So, it's an Anglo-Saxon agenda, and they've been trying to push it on the G-7. I'm not sure to what extent that is going to be successful. But given the job the Bank has to do, I don't think it's bloated. I mean—and I'm representing the borrowers—I see people working in this institution. They work day and night. I don't think it's overstaffed. Maybe we can indeed reorganize a bit more effectively.

And we can, of course, close Latin America at a certain stage. I really agree with Preston's agenda that if countries graduate, fine, great. Let them do it. If Thailand gets a better deal in the international capital market, why would we want to push loans on them? That, of course, is the logical thing to do. And I'm really surprised that the LAC Region is opening Res Reps all the time. I really don't understand this, but...

Q: How well do you think the Bank has responded to today's agenda? People are also complaining about the Bank not being responsive to changing conditions. Do you think that this is accurate?

HERFKENS: Yeah. I think the Bank has been slow, very slow, in responding to changes in its operating environment. The Bank only reacts if there is outside pressure.

Q: Why do you think this is so?

HERFKENS: One of the problems I have with the Bank is its lack of accountability. Bank staffers, unlike national civil servants, are not accountable to a government, a shareholder, or to a parliament, and this is a problem. I believe that the staff feels that they are doing a great job and that they shouldn't be accountable to anyone. Civil servants in a national context can never develop that attitude because there are many laws that constrain their behavior and, in some countries, they have to appear in front of Parliamentary committees. Here at the Bank there is no such comparable mechanism to keep the staff accountable.

The Narmada issue provided a good example of the staff's lack of accountability. After the issue had escalated into a sizeable controversy, I felt it important to be in agreement with Jan Pronk, our Minister for Development Cooperation, on what the Bank's next move should be; therefore, I
believed that it would be very important for Jan to come to the Bank and meet with the staff working on Narmada so that he could have the benefit of direct contact with the Bank before forming his impressions. Now, one of the people who met with Jan had a horrible attitude. His tone and his body language suggested that Jan didn’t have any business asking him about Narmada. This is a serious problem. Too many staffers feel this way. They also play the same game when the Board requires information.

Q: Do you think that this question is also a function of leadership?

HERFKENS: Yes. I see this attitude even among the Managing Directors (MDs). If MDs have that kind of attitude towards the Ministers of donor countries or towards the Board, then that sets a poor example for the rest of the staff.

Q: But also in terms of just kind of understanding what the issues are and what the institution needs to adjust to and respond to, you need somebody that’s pretty much at the top of the organization who calls the plays, you know, who says, “This is what we are now going to do.” And I suppose that has been lacking a bit.

HERFKENS: Of course. By the time Barber Conable really understood what development was, he left. Preston really took a long time, as he now acknowledges himself, but only now. I mean, the day he came in I already had a fight about this with him, that development banking is something different from where he came from.

Q: Investment banking.

HERFKENS: Exactly. So that has been a problem, but as John Williams wrote in the FT [Financial Times] article, there is really very little in the Bank that cannot be fixed by someone becoming the President who has been in development all his life. That was a very good line. Of all the Articles and the Bank, there’s nothing in the Bank that cannot be fixed by having a President who actually has spent his life in development. I really believe that.

Q: Can you talk about the various Presidents that you’ve worked with? Could we go back to this Narmada project you mentioned several times? You said you represented the G-10 in sort of

HERFKENS: I inherited that position. My predecessor was chairing the Working Group on Narmada; the G-10 ED’s had been meeting with Management and staff about this endlessly over years. Now, when I came in they had just decided that now we are fed up, and it was now they wanted to have an independent report, and their idea then was OED. So I came in and I talked with Gerhard Boehmer, who was then the chairman of the JAC [Joint Audit Committee]—I mean, it was an incredible job to get, you, a totally new ED, and then you have to solve this issue. And Gerhard talked with [Yves] Rovani, but Rovani really was not interested to get OED in this business. [Robert] Picciotto might have been different, by the way. But in that setting of Gerhard Boehmer being the chairman and Rovani being DGO [Director General, Operations Evaluation], there was no way that it could be solved that way. And so .

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Q: Do you think that it would have been appropriate for OED to do this?

HERFKENS: Yes. Yes. As an exception, in advance of what I then already advocated of creating a new unit to deal with ongoing projects, because I don’t think it’s good for Evaluation to be involved in ongoing operations, but the way it had escalated by then, we were looking for an independent kind of thing. It really would have been better for the Bank, looking back, if it would not have been a Morse committee, because that has been really very bad, honestly, for our image. And I think that ..

Q: Do you think the decision to have the Morse Commission was the right one but the connections ..

HERFKENS: No. That was the right one, but the characters ..

Q: Were the wrong ones?

HERFKENS: ... were the wrong ones, because you had in fact—Brad was, in terms of his health, in a way worse, a terrible state, and more than I was aware of. I’ve known Brad Morse over a decade, so I thought he was a good chair, but in fact he left it to his deputy chair, who was an utterly, absolutely the wrong person.

Q: Tom [Thomas R.] Berger?

HERFKENS: Yeah, he had no, no experience in development, and he really was this environmental type of person, absolutely anti-Bank from the very start.

Q: Could you speak for a moment about how the Bank has dealt with environmental issues?

HERFKENS: Environmental issues provide a typical example of how the Bank responds to outside pressure. Part of that outside pressure was Barber Conable’s arrival at the Bank. Barber was very sensitive to environmental issues. Nowadays, particularly because of this biased agenda of the Americans, we are dealing with the environmental issues much better than with the social issues. Thanks to the American NGOs and Congress, we assess each project’s environmental impact as a matter of routine, yet we still don’t assess our projects’ impact on the poor. This is an imbalance which concerns me deeply. We take the fish more seriously than we take the poor, and that has been forced upon us by the American agenda. If the Bank were not so susceptible to outside pressure, at least Management could have taken care to have a more even balance between social and environmental concerns.

I understand that there are trade-offs between environmental and social goals. European NGOs understand that developing countries need to increase their energy production. The American NGOs, however, don’t share this realistic outlook. The Environmental Defense Fund says that LDCs [less developed countries] shouldn’t build dams at all. Unfortunately, the Bank is located in Washington, so it gives the EDF’s viewpoint more weight in policy discussions than it deserves.

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This is a recurring problem with the Bank. Anything that happens in Washington is taken way more seriously than what happens elsewhere.

In addition to its location, I have another problem with the Bank. Most of the people here don’t understand that the American NGOs’ and Congress’s concerns are not identical to those of the European Parliamentarians. That’s really one of the things that really irritated me from the start. The amount of time that people in this institution spend to lobby Congress is unbelievable. We are not supposed to use the word “lobby,” but we have an advisor for that purpose, the President goes and has lunches with Congressional leaders, et cetera, et cetera. European Parliamentarians never got any invitations for lunch, but we have been footing the bill for this institution without any complaints—well, maybe complaints, but never any conditions. We recognize that the outcome of IDA negotiations is an international compromise. We never try to renegotiate things. European Parliaments have supported a higher increase of IDA replenishments time after time after time. It was always less because the U.S. wanted it to be less.

During the last debate I did in my Parliament on the last IDA replenishment, I calculated that if we had thrown out the U.S. from the first time they made problems, then the total quantity of IDA would never have suffered. Europe has always footed the bill. When I organized this North-South campaign in the Council of Europe, we were organizing events all over Europe. We invited the World Bank. They never cared to participate. I don't understand why the Bank is surprised by the Europeans' negative attitude towards it. I don't understand why the staff complains about the high level of criticism from the Europeans and its negative effect on morale. What do they expect? The Bank has kept its windows closed for three decades. For years, they were not prepared to talk with anyone. Now that they are opening up a little bit, the first thing to come in is a rotten tomato. This shouldn’t be a big surprise. Whenever the parliamentary discussions in Germany or The Netherlands come up, the UNDP [United Nations Development Program] will come a week in advance, speak to the parliamentary committee, and take the most important MPs [members of parliament] out for lunch. As a result, you always have amendments in the Bundestag and in The Netherlands Parliament to increase the money for UNDP. On the other hand, no Bank staffer ever cared to contact me. Even when I invited them to the Dutch Parliament, they didn’t come, or they sent people from their Paris office. These are not the key people who my legislators want to talk to.

Q: Why do you think this is the case? Why is the Bank less agile in this respect?

HERFKENS: The Bank never really paid enough attention to the European governments. It has always assumed that their concerns were identical to those of the American government. Nothing could be farther from the truth.

Q: Changing the subject to women in development, how would you assess the Bank’s efforts in this area?

HERFKENS: Very slow.

Q: Slow?
HERFKENS: It is getting better. One of the Bank’s problems is that it tends to accept positions only if the argumentation is purely economical. In my view, the entire problem of development has been reduced to an issue of economic development. This has been a tremendous handicap to those people who want to address gender issues. Barbara Herz has had to spend years underlining the point that failing to educate women is costly to developing economies.

There is also a bit of a problem with the multicultural character of this institution. In many cultures, women are not regarded as contributing members of society. Progress on the gender front has been slow, but I think that the situation is beginning to improve.

In the ‘80s, the whole issue of development was reduced to adjustment and macroeconomic issues. Policy makers didn’t really consider the plight of the poor (let alone poor women) when formulating their prescription. As a result, gender issues did not find their way on to the development agenda. However, over the past four or five years, the gender debate has gained momentum in development circles, and that’s been a help to the poor. The majority of the poor are women. As far as the gender debate helps to open our eyes to the problems of the poor, that’s great.

Q: Focusing in more narrowly on the Bank as an institution, how would you assess the Bank’s efforts to increase the number of women in staff and management positions?

HERFKENS: Also very slow. It was very difficult for me to start here. It was a handicap for me to be a woman. Four years ago I was the only female ED. Most Bank Board members, and even many staff members, were not very supportive. At the Bank, women had to be way above average merely to be accepted as an equal. They always had to do their homework better.

Like the environment issue, the female staff issue also has its tradeoffs. Increasing the number of women on the staff also reduces the number of Part II people on staff. If you go for more women, you end up getting American women because their culture is generally more supportive of female professionals. In many parts of the world, if two marital partners have job opportunities, it is very difficult for the woman to get her first career choice. You won’t find many European or Asian families moving to Washington so the mother can work for the World Bank. It is much easier for the American women to fight for their careers.

Q: Finally, you’ve made some comments already about Conable and Preston, but we’d like to finish up by asking you to assess the achievements of these two World Bank Presidents.

HERFKENS: I came here when Conable was in the later stages of his Presidency, so I cannot judge the earlier stages of his career. However, while we were both at the Bank, I thought that he was an excellent President. He was strongly committed to the poverty agenda and the gender issues. He was on top of the issues. I really thought that he was doing an excellent job, and I will never forgive [David C.] Mulford for pestering him. Barber would have wanted to stay on longer, but he was fed up with the U.S. Administration and the way Mulford had handled the Bank.
Do you know about the conflict between the Europeans and Preston even before his arrival?

Q: I don't think so.

HERFKENS: The rumors said that Preston was going to fire Moeen Qureshi and get rid of the Senior Vice Presidents. He came in on the first of September, and we, the Europeans, were very concerned about the effects of these rumored personnel moves on the Bank's ethnic diversity. Remember that before Preston came, the three SVPs were a European (Wilfried Thalwitz), a Part II (Qureshi), and an American (Ernest Stern). According to our information, Preston was going to move out Wilfried, ask Moeen to leave and make Stem his number one guy. We felt that this move would be very detrimental to the Bank's multicultural balance. We had several meetings about this, and then we decided that one of us should go and see Mr. Preston and ask him to consult with the Board before making any personnel decisions. I was asked to do that job because I have never had a problem with being blunt and honest.

I asked for a meeting. I went to meet him, and we had a very unpleasant conversation where he stated that he knew how to run a bank. Undaunted, I tried to show him that development banking was quite different from his experiences. I also pointed out that the Bank was a multilateral institution. He had to find consensus. He had to consult with the Bank’s shareholders. Preston replied by telling me that he knew how to handle a board. He was very blunt and almost offensive, but I was blunt, too. I don’t beat around the bush. Although we both made out feelings known, I was unable to persuade him to see my point of view. He was not going to consult with the Board.

Although Preston’s first encounter with the Board was not very promising, he soon became aware of a multilateral institution’s unique qualities. Now he understands that he cannot rule by fiat. He has to look for consensus.

I accompanied Preston to The Netherlands, and he began every address by saying that he really was glad to have me with him because this was such a totally different form of banking than he had ever known. Whenever people asked questions that he couldn’t answer, he would not hesitate to involve me in the discussion. I think that this highlighted his realization that development banking is a team sport. Preston can’t go it alone. He needs the Board to help him.

Preston has made some strides in recent years, but his diplomatic skills are far from perfect. He isn’t good with groups. When there are more than four people in the room, he’s not at his best. That’s a real problem if you are the President of this institution. However, I also feel that all the Board members have good relations with him. Whenever I have a problem which I feel I can’t solve it at some lower level, I go to Preston. We agree on most issues, and he follows through on his commitments. He has also taken the time to travel to our capitals, and that has greatly improved his rapport with the EDs and the governments we represent.

Q: Well, thank you very much. This was very interesting.

HERFKENS: Thank you.

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[End of Session 1]
KRASKE: This is a supplementary interview with Ms. Eveline Herfkens, Dutch Executive Director in the World Bank. The date of the interview is October 8, 1996. I'm Jochen Kraske, the Bank's Historian.

HERFKENS: I'm Eveline Herfkens, at present the Dean of the Board but leaving in three days.

KRASKE: Well, thank you, Ms. Herfkens, for agreeing to talk to us some more. It has been two years since we had our first interview with you. A lot of things have happened in the meantime. You're now ready to leave the Bank, and I thought it would be very useful to have a supplement to the earlier interview that we conducted.

Perhaps we should start by asking you to comment on what in the past two years has most preoccupied you. I suppose Bosnia was one of the issues in the forefront of your mind and your work.

HERFKENS: Well, what preoccupied me most have been Board-Management relations, primarily the change of President once again and, as Dean, being in the middle of the problems that I think every new President has to face with the governance of this institution. But they have been particularly difficult this time around.

Secondly, during my six-year tenure I did spend a lot of time on most of the borrowing countries that I represent, especially, within the last year, on Bosnia. The year before that I had great problems. Now we are discussing a post-conflict facility here and policies, and one of the things that is now agreed on is that the Bank should never be away from these places because of the time lost, etcetera. It's only one and half years ago that Management flatly refused to create the administrative budget to enable staff to work on Bosnia and to prepare for the day when peace would come about.

I finally had to get trust fund money, and the Netherlands didn't want to do that alone. So, with some difficulty, I got a very symbolic amount of money from the U.S. Treasury in order to have Dutch money paying for staff here to prepare the reports for the first donor conference. These reports were ready last year, and Management refused to organize a donor meeting on Bosnia during the Annual Meetings. My office had to do the organization of the CG [consultative group], including the invitations, nameplates, setting the table, and getting the European Commission involved in a way that would be helpful. I chaired the meeting myself; Management didn't want to stick their neck out. This was just a few weeks before Dayton was signed. It was extremely well attended, and it really set the stage. Later the Bank capitalized on it very much, and now there's no speech made by [James D.] Wolfensohn without any reference to Bosnia. All this work was done in spite of the institution.

KRASKE: Why did you think the Bank was reluctant to enter into the picture? Was that simply for procedural reasons or for political reasons?
HERFKENS: Jim Wolfensohn himself had not turned to the issue. He didn't want to receive the delegation in October or get involved in any way. It was a fierce few months. Looking back over the past six years, the worst things that were ever inflicted on this institution have been the budget cuts, which started two years ago at the Annual Meetings in Madrid. These cuts meant cutting into the core services for all my borrowers, thus making it impossible for Kemal Dervis, who was then the Country Director, to find the resources necessary to make the efforts we need to make in Bosnia. These indiscriminate budget cuts were never asked for by the majority of the Board. If any shareholder asked for this, it was not in a transparent fashion; there had been no Board debate about it. Looking back six years, this is the most negative thing that happened, and this still is a problem.

KRASKE: But just as you were able to mobilize some trust funds to organize this donor's conference, so the Bank could have also used some funds and taken the lead in that conference.

HERFKENS: Of course.

KRASKE: So why do you think the Bank was reluctant to step up the plate and deal with the problem?

HERFKENS: I am not very impressed by the willingness of the Bank to take the initiative unless it gets the proper signal from the major donors.

KRASKE: Do you think that once the barrier had been breached with the Dayton Accord, the Bank was responding adequately?

HERFKENS: Oh, yeah. Then suddenly they worked very hard.

KRASKE: Do you think that the Bank has been quite effective in the meantime?

HERFKENS: I think it did a terrific job. There is a very good country team. The problem still is that it's managed from headquarters. They didn't do in Bosnia what they did in the West Bank and Gaza. The Country Director or the Acting Country Director is based in Washington, and that's not good for these kinds of situations.

KRASKE: Do you think that the Bank's insistence on a proper framework has been helpful?

HERFKENS: Bringing all the donors together on a common framework has been terrific. For the rest, a lot of mistakes have been made which, in a situation like Bosnia, are more detrimental than elsewhere. One of the typical mistakes of the Bank in dealing with its new members is that it takes for granted that these countries know the Bank and what they can expect from the Bank, and the Bank in turn thinks that it knows what they can expect from the country. All the new independent states--and that's eight of them--really feel that as newly independent states, it is not the Bank's business to micromanage them. I have spent a lot of time with all of these new countries explaining to them how the Bank works and telling them not to take this personally as they are being treated like all the other borrowers.

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In the case of Bosnia, not much time has been spent on that. I think it should not only be my job to explain how the Bank works. I blame myself for having been so busy with the arrears clearance problems. The Bank could have dealt with that half a year earlier. If we would have done that half a year earlier, there would have been no need for a facility out of net income because Bosnia could have had access to IDA right away. So I neglected that part of my job which calls for training them a bit in what they could expect. This has really turned the policy dialogue sour because these people just don't understand how things work around here--they've negotiated a loan and they think that this is it. Then, suddenly, the Bank comes back with some do's and don'ts, leaving them wondering as to why these were not covered during the negotiations.

So there were a lot of things that went wrong, and in the case of Bosnia it delayed the first adjustment credit. This meant that Bosnia actually for a certain period of time had a net negative transfer to the Bank, which is outrageous for a country like this.

KRASKE: You blame, essentially, the staff for not having properly planned and prepared the program for Bosnia?

HERFKENS: Not the staff at the working level; the country team for Bosnia is terrific. But the Vice President just didn't want to touch it, and then the Country Director said, “Well, what can I do?” But the country officers, the task managers--and these are the best people that this institution has; these people are great--they wanted to help, and they were delighted and extremely supportive that I took the lead and did this, but we couldn't tell this to their bosses.

KRASKE: By now you feel that things are rolling, although I still read in the press occasionally complaints about the Bank and the IMF being rather slow in Bosnia.

HERFKENS: Well, compared with others, I think it's going very, very well. I don't know if the country will survive. But if it does not, it's not because of the lack of support of both the European Commission and the Bank or its lack of cooperation. The most delighted note on which I part is the fact that there was an integrated delegation attending these annual meetings. It included Serbs and Croats and they behaved perfectly. They attended all the meetings and the social events as a group. I was extremely impressed. I find it incredible that these people can do that.

KRASKE: This was the Bosnian Serb delegation?

HERFKENS: No, this was a delegation from Bosnia and Herzegovina, led by the Prime Minister who is a Bosniak. But it included two representatives from the Republic of Serbska and the Croats with whom they're supposed to have a federation, although relations weren't that warm until recently. So it was an integrated delegation. They discussed their address to the annual meetings at length among themselves--it was really a speech on behalf of all of them, and I insisted that [Hasan] Muratovic, the Prime Minister, would refer to this as an opening sentence. I had organized it that in eight different corners of the plenary hall people would start applauding
the moment he finished that particular sentence. And it worked well. I think this was the only
time that such a thing happened during the annual meetings.

KRASKE: Is Belgrade now also one of your potential constituents?

HERFKENS: No, we have made an agreement with the others that we are not going to
represent Belgrade, so I don't know where Belgrade is going to go. Their debt is much bigger
than any of the others. They won't get the grand treatment that Bosnia got, so I don't know how
they will manage.

KRASKE: Can we turn for a minute to the IDA situation and talk a little bit about the Bank,
where it has come from and where it is going? IDA obviously is one of the key elements in this.

HERFKENS: It's the heart of the matter.

KRASKE: What do you think is going to happen?

HERFKENS: Well, if IDA fails, it's the end of the Bank because really in countries like the
Netherlands, when we speak of the Bank, we actually mean IDA. The Bank is a channel for our
own aid and an increasingly popular channel to Africa, Bangladesh and one or two other poor
countries, but to the poorest countries. The only thing that matters in my country and in the
Nordic countries is IDA, although we call it the Bank. So without IDA, there is no Bank. There
is not much interest in The Netherlands in the World Bank as such, the IBRD part at all. There is
no constituency for that. So I wouldn't be surprised that if IDA were to totally fail, then certain
forces in the Netherlands would say, "Let's close the Bank and get our share
back." So it's really
very crucial. I know it's not the case in some other countries which see the IBRD as useful to
their own foreign policies and to opening up markets, but we don't have that kind of feeling
about it, and neither do the Nordic countries. So I think that the failure of IDA would be a
disaster.

Now, on the other hand, I don't see my country or any other country, except for Canada, giving
in on these procurement restrictions [proposed by the U.S.]. I've been a Member of Parliament,
and there is no way that I would be prepared to accept and explain to my electorate that they
have to put up taxpayers' money to bail out the United States. If the Americans don't understand
this, then they have a problem.

I gave an interview to the last Emerging Markets issue on Friday. I said that the U.S. has a
problem and they should, for once, think about other people's views on this. It would not be wise
for the Americans to insist that the procurement restrictions be lifted because we have alternative
channels for our aid. There is not one penny less going to developing countries without IDA; the
development budget constitutes 0.7% or 0.8% of GDP in my country, and it's just a question of
channels. We have the European Development Fund, whose effectiveness is not great but which
we will use if necessary. We can go more bilateral: we already do a lot through the NGO's. We
don't need IDA. It would be a pity, because we think IDA is better, much more effective, and it
performs. For the Americans it is a very effective instrument for their policies, and I don't see
any of us giving in on this issue.

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The most important point that I want to make on this in my farewell statement is that I have always been a great advocate of the idea of creating a parliamentary assembly for the Bretton Woods institutions, as many other international organizations have this. Now, in the ‘70s and ‘60s and ‘80s, international burden-sharing was associated with defense and military spending, and the NATO parliamentary assembly has been enormously helpful; NATO as an organization got the trans-Atlantic burden-sharing debate to be productive and effective. But today, in the aid business, congressmen don't hear from their peers in Western Europe. The trans-Atlantic debate takes place through the technocrats who are the IDA deputies, who just act upon instructions which are reflecting the constituencies in these parliaments and congresses. So it's totally a dialogue among the deaf to have all these meetings of the IDA deputies again as they are just technocrats.

KRASKE: But don't you have politicians visiting, senators and congressmen traveling to Europe?

HERFKENS: No, very little, and aid is not on the agenda.

KRASKE: I guess they focus on defense, as you mentioned, or other issues.

HERFKENS: Yeah, on other issues. Nobody has asked them to focus on IDA. And I think the Bank itself, like NATO, should create its own assembly. Maybe creating a parliamentary assembly sounds a bit too threatening, but at least have a framework in which parliamentarians from all different parts of the world can discuss the Bank and IDA.

KRASKE: What is happening now? Is your government and the other IDA donors just sitting and waiting on whether the U.S. is going to come out in support of IDA?

HERFKENS: No. We are waiting to see the outcome of the U.S. elections. We all expect a much stronger commitment from the Administration and, perhaps, more educated Congressmen. I find it interesting to read in this morning's Washington Post that [Newt] Gingrich is challenged. It would be very helpful if that were to happen. But I still think the best thing that the Bank can do for itself is to create a parliamentary assembly, as it is ultimately accountable, at least among the Part I countries, to these parliaments as elected representatives of the taxpayers. As long as you don't create a constituency there you will have constant problems.

This has always been an issue with me. In the ‘80s, I organized the Council of Europe campaign where we had roundtables on development in twenty-one countries, plus the European countries including Turkey, Cyprus, et cetera, and the Nordics: in those days, Scandinavia was not yet with the Union. We invited all the international institutions to attend and participate in these roundtables. The Bank only showed up at one in Paris at a relevant level. It didn't show up at most of them or sent a PR person from the Paris office. And that's the way we were treated. The Bank was always wining and dining U.S. congressmen, while we parliamentarians who had been footing the bill, maybe with some criticism but never with conditions and always loyally supporting the outcome of international negotiations, were totally ignored.

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KRASKE: But what about bilateral contacts between your government and the U.S. or the Germans and the U.S.?

HERFKENS: It's not enough. It's the Congress that matters. The Administration says all the time, "Sorry guys, we can't help. It's our Congress."

And then Jim Wolfensohn came up with the idea that we all should ask our ambassadors to lobby Congress. And I said no, that's totally counter-productive. Any elected representative is not going to listen to a messenger from a foreign government, but he will listen to his peers. I've been part of the NATO assembly and many of these inter-parliamentarian meetings, and there you communicate on the same level.

KRASKE: So the position is that one will have to wait and see. Do you see a significant risk that the whole thing may fall apart and, as a result, the Bank may be in jeopardy?

HERFKENS: Yeah. And again, it will hurt the Americans more than anyone else. I find it a pity that they don't see that.

KRASKE: Perhaps I can just touch on one other issue which we have touched on in the earlier interview, and that is the Inspection Panel. I remember you were very much in favor of the creation of this panel. Would you say that the activities of this panel have met your expectations?

HERFKENS: I think it has been very interesting. We are now in the process of redrafting their terms of reference, because the whole word "inspection" sounds very heavy.

The whole experience with the project in Rondonia was extremely interesting. There you had a request for an inspection because the beneficiaries felt that they didn't get the benefits of the project quick enough. They didn't want to stop the project, but just wanted to alert the Bank to some of the things that were happening, not so much to blame the Bank but the local government and the Brazilian government. It was a real wake-up call as it has been very beneficial to the quality of the project and to the quality of the dialogue within Brazil of all the parties concerned to whose attention it was brought by this panel. Until now, we haven't really had any inspection, but the fact that we had the panel and because of that some issues had been discussed seriously, I think led to better projects in all of the cases examined by the panel.

I am still very upset about the Nepal project; I was in favor of that dam. I found it really strange how with just one stroke of the pen, after all these debates, without serious consultation with either the Board and more importantly the government of Nepal, the President decides just not to do it. I mean, I know there were a lot of difficulties with this project, but I really felt that we had gone through that endlessly; it was risky, but okay, that's the business we're in.

KRASKE: Yeah, I was involved in this project at some point, as you may remember, and I have always been concerned and impressed by the environmental problems that Nepal is facing, which will be aggravated if there is no adequate power supply because the people are cutting down the trees all over the place as their only source of energy.

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HERFKENS: Exactly. As everybody was so afraid of the Inspection Panel, the project was finally developing into a perfect project. Other NGOs with less concern with the environment said that the counterpart funding will eat out their budget, but there was fantastic agreement about protecting social spending with the government. There was conditionality all over the place. So I don't understand.

But a concern that I do have is that of course we created this Inspection Panel in the hope that the Bank would make projects “Panel-proof,” while in fact what has started since is that they are re-writing the Operational Directives system in order to make the guidelines and the directives Panel-proof. I find that very worrying, because that was never the intention. And if that's going to be the result—and it's too early to judge—then I think it was a mistake.

KRASKE: This would mean that the Bank would just eliminate itself from so many activities?

HERFKENS: No. The Bank is re-writing the Operational Directives in order to make only very little mandatory and leave a whole lot in the best practice mode. Now, as the job of the Inspection Panel is to judge the performance against our directives, so I'm worried about what would happen if these are watered down. So I'm worried about that, particularly because I think that the Board as well as the Panel have proven not to be too rigid about these directives. We want to keep these directives, and we understand that in all of the cases which were discussed you cannot follow to the letter all of them all of the time.

So I think both the Inspection Panel and the Board have proven that there need not be concern about rigidity. Actually, the Board members are increasingly a very reasonable bunch of people. And one of the things that I’m going to say in my farewell address on Thursday is that this is the best Board I’ve ever been on. I’ve never seen such a bunch of people really prepared to listen first. One of the greatest things that this institution now enjoys is a person like Jan Piercy, who is representing our major shareholder. Her attitude is first to listen, because she said, “I don’t represent borrowers, so I don't know. So can we hear first from others.” And only then does she make up her mind. She’s even prepared to tell her own Treasury to back off.

KRASKE: My concern has always been that to some extent these directives and, for that matter, the creation of all kinds of institutions such as the Panel and the interaction with NGOs would lead the Bank and its staff to avoid all sorts of activities that the Bank should be involved in. People complain that Bank staff act like bureaucrats, and bureaucrats want to minimize trouble.

Now, if somebody comes and says, “Would you make a loan for a hydropower project?” Bank staff would say, “Well, think again. This will cause a lot of trouble and you don't want to have trouble, we don't want to have trouble, so why don't you finance this on your own. After all, money is fungible, we will finance some education project, and you can use the money to build your power project.”

HERFKENS: I'm sure that's happening. After what happened with Narmada, there was no way to avoid the Inspection Panel. It's partly a sign of the distrust which has grown over time between Management and the Board.

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KRASKE: Now, maybe we can go into some of these issues. In your six years here with the Bank, would you say that the Bank has become a more relevant institution than it was at the time when you started?

HERFKENS: Frankly, I'm not sure about that. The reason why I leave with very mixed feelings is that I personally feel that I had more influence in my first two years here than in my last two.

Board-Management relations are much worse and much less existent. The great thing about people like Moeen Qureshi and Ernie Stern was that they really were very good at making the Board happy, or at least giving the Board a feeling that they were listened to. Ernie had this habit of at least once a week walking into my office unannounced, having a cup of coffee, and just checking on what I think about certain things. And Moeen would have lunch very regularly with EDs. Now there is just no contact whatsoever; I never see any of these MDs. There is only the formal contact of the Board Room. And I find that particularly disturbing as I really think this is the best Board I've ever been on.

In terms of the group, there's enormous collegiality among this group and maybe that's more threatening. I've always been very serious about the dual responsibility of representing my constituency and of defending the institutional interests against my own capitals. Now the number of people doing that now is much bigger than I've ever seen.

KRASKE: What do you attribute this to? Is it Mr. Wolfensohn's style?

HERFKENS: Yeah.

KRASKE: But his strength seems to be that he can charm the birds off the trees?

HERFKENS: Yeah. With outsiders. Not with the insiders.

KRASKE: Why not with the insiders? Is it simply that he cannot sustain his interest?

HERFKENS: Exactly. That's one of the problems, but, secondly, we have exactly the same problems that we had with Lew Preston, that he doesn't understand why this Board is not just his fan club. He feels that he is confronted with a jury two days a week and that it's never good enough and one day he gets a lot of compliments on what he's doing but the next day he has to start all over again proving his point. He just doesn't understand that we have been elected in order to convey certain views and that this is part of a process of consensus building and that it's perfectly possible that sometimes as a group we arrive at a different judgment than Management and that it doesn't per definition have to be the wrong judgment.

I'm spending quite some time listing in my speech all the examples where I feel that the Board actually has been judging the interests of the Bank better than Management and where Management had to give in to a Board that was pushing for issues. It's quite a long list. But the fact that I'm using my farewell speech to make these examples says something about the present situation.
Kraske: Do you ever talk to Wolfensohn about this?

Herfkens: Oh, yeah. But he doesn't understand the job of Executive Director. I had a fight with him in Bosnia, where I went a week in advance to prevent problems. When he finally arrived, I wanted it to be perfect. Bosnians were very sour about the Bank—this was still in the middle of the arrears clearance issue, et cetera—and they didn't want to see him. So I really had to do a lot of preparations. One of the issues that I had to prepare them for was that there is a growing group in the Board telling Management that we have to do something in the Republic of Serbska, which was at that stage absolutely unacceptable to the Bosnian authorities.

So I tried to prepare them for that, and I explained that whenever you decide that the Bank can start working in Serbska, knowing how this institution works, there will not be a penny before the elections. You can safely work with the Bank in all kinds of sectors where, like telecom and transport, it would help the integration of your country, because you want projects to be ready by the end of the year.

So I softened them, and then Wolfensohn arrives, and I tell him while we're talking to the President and the Prime Minister that I had explained to them the Serbska problem in the Board. He lashed out at me and said, “What are you doing talking with these people about what happens at the Board? I am here to do that.”

So I said, “Sorry, it's my job as their Executive Director to report to them on what's happening in the Board and to advise them on how to deal with this institution.”

So he said, “I don't accept that you talk with Presidents and Prime Ministers.”

I said, “I'm sorry, they wanted to see me, they do appreciate me.”

He was really furious about all that and said, “I don't accept that you do that.”

I said, “Fine, let's go back and discuss this with twenty-four EDs and get the opinion of Mr. Shihata.”

He said, “I can't accept this, because otherwise what do I do?”

I said, “It's not your job to communicate what happens in the Board to Presidents and Prime Ministers. You have an institution to run, and quite a large portfolio.”

“Then,” he said, “I step down.”

And I said, “Fine, do it.”

I had several of these discussions with him. I think one of my problems is that I just cannot swallow and shut up.

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KRASKE: You think you are pretty much the only one who has difficulty with him?

HERFKENS: I'm afraid all the Board members have difficulties with him, but most are unwilling to challenge him. Some of the appointed Part I EDs are reluctant because Wolfensohn is good friends with their political bosses. EDs of borrowing countries in general hesitate to challenge Management as they fear it impacts on their countries' portfolios. This attitude deeply worries me, as the integrity of the governance of this institution depends on Board members acting as representatives of shareholders, including or rather especially when they are also borrowers.

KRASKE: You've referred to the Board several times and to the fact that you think that the present Board is an unusually congenial assembly of people. Can you relate this to what happened in the course of the past six years that you have been here? Is this a question of the Board asserting itself and achieving a role that is more substantial than it was initially, or is this just a matter of luck that decent and competent people have come and joined?

HERFKENS: It's different. First, I think what is helpful is that the talent on the Board is evenly balanced. Secondly, I think several people on this Board are indeed much nicer and more cooperative than their predecessors. Thirdly, more of an institutional change is the mixed constituency issue. Today also the Italian and the Canadian EDs acknowledge, including in the positions they take, that they do not represent only their own country. That really creates a completely new atmosphere where the G-5 representatives are honestly saying all the time that they envy the others because they don't represent borrowers and hence don't know about the perspective of those who benefit from the institution.

Now, the other institutional change which I think is extremely important is what was started with the [Moises] Nairn Committee. Country Assistance Strategies bring out the best in everybody. There can never be a comparative advantage for an ED to discuss a project. What can you add to the staff appraisal report? You can never have anything to contribute. But strategies for a whole country, we will all have our angle and particular background which allow us to contribute. Many of these discussions are really very good and profound and leading to situations where Vice Presidents and Country Directors admit that you've got a point and are prepared to take that into consideration.

I really think these procedures have brought out the best in us. Apart from the Nairn Committee, we had the [Jorunn] Maehlum Committee, which created the new Committee on Developmental Effectiveness. It is doing a great job and taking away a lot of detail work from the Board.

The most important contribution I made in the past six years was perhaps in setting the agenda. I've effectively used the Steering Committee over these years to get the agenda focused on the key developmental issues, so any newcomer immediately realizes that this is not about banking or finance.

KRASKE: Now, when you talk about the tension with Management, I take it that it isn't this change that is leading to tension. The discussion of country strategies is not a contribution issue?
HERFKENS: No. Well, there have been two clashes, one on the budget and one on the distribution of net income. The one on the budget was not handled well by Jim, and it really showed his lack of experience in dealing with all these shareholders. In fact, he had a (non G-7) majority in the Board saying, “Let's forget about these budget cuts.” But he lashed out at colleagues, G-7 colleagues, in a way that all the rest felt that, “No, you can't do this.” So he lost his support, and nobody wanted to come out on his side in that particular debate anymore. So he really handled that badly.

KRASKE: And he did this all by himself?

HERFKENS: Yeah, very much. He chairs the Board like Ernie Stern, but on a full time basis. Like Ernie Stern he participates in the debates. He doesn't give the floor to any of the MDs or Vice Presidents or staff. He does it all himself by taking the floor after almost every speaker and disagreeing.


HERFKENS: The Dean has basically two roles: one is to get the act of the Board together and the other is to facilitate the Management-Board relationship. I am not sure that I did especially well on the second one. In the first role, I think that I really contributed. I organized several retreats. There is a problem with the Board continually having new members as well as the problem of all these unwritten rules, codes of conduct, some of them helpful and some not, but they were never codified.

One of the things that I've been doing, particularly this summer, is working all week on organizing the minutes of retreats over the past six years, the agreements, the things that the Board has agreed to in the past, so that we don't have to revisit that time and time again. For six years I saw every Board retreat revisiting issues that had been dealt with often enough before and solved, but nobody had remembered how it was solved. Nobody remembered whether we had...
studied this option or that and whether it did work. So, some codification should help the new incoming EDs.

Secondly, I spent a lot of time with Secretariat on my notes. I had developed a really good and focused induction program for the Board and chaired by the Dean, focusing on the things that Board Members need to know to enable them to work together as a Board. I'm very proud of the induction program that my successor will get. That will really create a situation in which new EDs can hit the ground running and make the Board more effective.

**KRASKE:** And this will be administered by the Secretariat's Department but run by the Board?

**HERFKENS:** Yes. The Chairmen of the Committees will explain how they work with the budget or how effective this institution is in development, instead of the usual PR you get.

**KRASKE:** Now, let's step back. We've already spoken a fair amount about Wolfensohn and his style. Since you've worked with three different Presidents, perhaps you can characterize briefly how you see these three different Presidents, the relationship of the Board with these Presidents, and how this worked. I have, as you know, looked at the activities of the various Presidents, and I found that in fact the relationship between the Presidents and the Board has followed a cyclical pattern.

**HERFKENS:** It starts by being difficult, and then it settles.

**KRASKE:** There is always one who has a terrible relationship with the Board, and he invariably is followed by somebody who does very well. There was McNamara, who had, by and large, very good relations. He was followed by [Alden W.] Clausen, and things didn't work at all. And he again was followed by Conable, who as a politician, of course, a master in dealing with other politicians, who in turn was followed by Preston.

**HERFKENS:** Talking about Barber Conable, maybe I can say something which is not Board or Management related which I'm also going to mention in my speech. In looking back over the past six years, I start to fully appreciate that maybe the Conable era is of much more historical importance than it's given credit for. The commitment that Barber had on the issues of gender, environment and poverty really made a difference. The *WDR* on poverty, the translation of that, everything that came after that, the poverty assessments, et cetera, the repositioning of the Bank in the broader development arena I think has been much more important than I had realized in my first year sitting here. I was frustrated partly because it wasn't going fast enough and because it was derailed several times. But I think that what was set in motion is really going to be, looking back ten years from now, a very important point in time. In that sense, Barber Conable has been a much more important president than he was given credit for.

The problem with Barber was that he's such a nice and chummy guy that you underestimate his historical value. He's such a modest and warm person. Jim makes all these statements about his efforts with Congress. Barber worked on the Hill in a very silent and low-key fashion, but he did deliver. Barber was deeply committed to Africa. The beginning of diminishing the disconnect between the African reality and the Bank's blueprints started under his leadership with the long-
term perspective studies. My only frustration was that it took so long, which was the way that the
Bank does its business, but I think that this was much more important than many of us realize. I
hope that what Jim and the new Vice Presidents are now doing in the Africa region will
contribute to moving in that direction.

KRA$KKE: Do you attribute this to Conable's genuine and personal commitment to the goals of
the Bank?

HERFKENS: I came in 1990, and so I haven't witnessed the earlier years of Barber. I know
everybody thinks that he made the biggest mistake with the '87 reorganization. I cannot judge, I
wasn't there, and you tend to hear it from the victims more than from those who benefited. So I
don't know. But the year that I was there, I was extremely impressed with the personal
commitment of Barber and, in retrospect, in the way in which he used the Board, including me,
to get through to his own Management. He really thought that it was important to use the Board
vis-a-vis his own Management. But he was so much smarter in that than we ever realized,
because I never felt used by Barber.

KRA$KKE: I would agree with you that he made an important contribution in refocusing the
Bank on some of these important objectives, poverty, education, the environment, and so on,
partly because he was sensitive to the outside signals and partly because he was personally
committed.

HERFKENS: He really cared.

KRA$KKE: Where he was weak, of course, was as a manager. He had no idea how to manage an
organization of this size.

HERFKENS: But who did, except for Bob McNamara?

KRA$KKE: Barber came, and there was this idea that Ernie represented a bureaucracy which
was out of control, running the Bank unimpressed by what the shareholders wanted, which was
what ultimately led to the '87 reorganization.

HERFKENS: Well, by the time that I came, Ernie was just doing the financial policies. You
had Moeen and Ernie, who I thought balanced out quite well. And I thought that it was Barber's
tactical personality to see to it that these two fight it out. Then, when all the dust settled, he knew
what the issues were and what side he wanted to be on this time around.

KRA$KKE: He was succeeded by Preston, and you were very much here when this happened.
How did you see this transition?

HERFKENS: I think Preston has been a total non-event. The only thing he actually did was the
budget cuts, and that has been, as I said earlier, the worst thing that happened to this institution.

KRA$KKE: He did not effectively take charge of the organization?
HERFKENS: Not at all.

KRASKE: He was not a leader?

HERFKENS: Not at all. He didn't know what it was about. Now, of course, history has to be a little kind to him because he accepted the job the day he learnt that his son was dying, and just after his son died his wife got very ill, and that was hardly over when he heard that he was dying. So you cannot blame the man that much.

KRASKE: But what about the relationship with the Board? That was a sharp shift from Conable?

HERFKENS: It became, after the first clashes, friendly but nonexistent. There was no point in going ever to him with anything. I started to go to him whenever I had a problem, and he clearly didn't know what I was talking about. When you explained, you thought you had a deal, but you didn't. So I just dealt with Ernie, which was perfect because with Ernie you knew if you had a deal or not, and if you had a deal he would implement the deal.

KRASKE: He was effectively running the Bank during the Preston era?

HERFKENS: He was totally. At that time I didn't have any problems because he was good for my countries and there was not much of an agenda that he particularly pursued.

KRASKE: Now, coming back to Wolfensohn, apart from the clashes that you have had personally with him, would you think that he has done something to the Bank that is positive?

HERFKENS: Oh, yeah. I think to the outside world he has been the best thing that could have happened to the Bank, given our standing in public relations and the lack of involvement of many shareholders. At that level, he has been terrific. He is a great communicator. He has tremendous energy, and he gives everybody the feeling that there is something at stake for him or her by being involved in this institution. I think he does that very well. The way he handled the Development Committee was terrific. But he doesn't regard his EDs as being that important, and that's one of the problems.

KRASKE: But still, he will possibly be the president who presides over the end of IDA, and that is quite a responsibility. The president has to make sure that IDA keeps going.

HERFKENS: Well, he did a great thing in terms of the image of the Bank. I wonder to what extent he can really influence and whether he has the power to preserve IDA or not. After all, it's the people on the Hill who at the end of the day decide. But he really improved tremendously the image of the institution everywhere, including in Congress, which was really badly needed.

KRASKE: One thing that Conable did--very much in contrast to Clausen--was that he got the IDA replenishments through, the GCI [general capital increase], the IFC capital increase, and he did this because he could go and shake the hands and press the arms on the Hill. Do you think Wolfensohn will be able to match that?
HERFKENS: Well, Jim thinks he can do that too. He knows a lot of Congressmen because they were on the Board of the Kennedy Center, et cetera, but for the time being he hasn't delivered.

I'm not sure that he is totally to blame, because I think this Congress is much worse than the Congress that Barber worked with. I'm positive about the outside, but I am concerned about what he does to the inside of this institution.

KRASKE: Now, when he talks about the glass wall that separates him from the staff, that he cannot penetrate this glass wall, how do you see that issue?

HERFKENS: I know that he inspires a lot of people in this institution at the lower level and is building a feeling with them that there is a middle layer which they both suffer from. The people doing the real work are O.K., but the middle management is a problem. I don't fully agree with that view and find it really very strange. If he's supposed to be running this institution, he shouldn't have a problem with the middle layer. So much about the glass wall.

KRASKE: Is it perhaps possible that he, again, doesn't really have any managerial experience?

HERFKENS: He doesn't have much managerial experience. That's one of the problems, that he doesn't know how to run a big institution. He just can't delegate, and that's one of the problems that I have with him. I don't have to deal with the President on issues concerning my countries, but if I go to an MD, I can't rely on a deal being made because it might come up at the next Management meeting and if Jim doesn't agree with the deal and the MD concerned is afraid to tell him that he has a deal to which he has committed himself, the deal is off. Sometimes he has a habit of punishing the messenger. One of the problems is that in this institution, as in any institution, reporting from the bottom up gets rosier all the time. But if you have a top person who doesn't seem to want to hear bad news, then you're in real trouble.

KRASKE: Now, finally, looking back at your six years in this institution, what was the most satisfying experience you had and what was the least satisfying aspect of your work?

HERFKENS: Well, the first is easy. What stands out above everything else and above everything that I ever did in my life is representing the borrowing countries, particularly the seven who became newly independent states for the first time in their history after a century or more, and the fact that each of these countries accepted me as if I was one of their nationals.

KRASKE: The sense that you were personally able to help these people made a difference?

HERFKENS: That they gave me the feeling that I made a difference and that I was one of them. Here I am, a Dutch national, and somewhere along the line I suddenly become a national of nine countries who are in what is for them the most dramatic of times in their history and I am allowed to play a part. What can be more rewarding?

KRASKE: Now, what was the least rewarding aspect of your work?

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HERFKENS: That I find very difficult. What hurts me is indeed the way things have been going in the last year in terms of Board-Management relations. I really think that a lot of people on the Board, including myself, who have something to say are not being listened to. I see Jim Wolfensohn making mistakes for which he might pay dearly, and I never felt I had the opportunity to warn him or whenever I did I felt he did not listen. And that has been extremely frustrating because I care deeply about this institution. I believe in what Jim wants to do with this institution. I could have been helpful if only he would have, once in a while, accepted that I've been in this place for some time; I've got some political experience; I've been in public life my whole life and proud of it.

One example: the budget problem. He himself created it. I saw it coming. He wanted to be invited to the G-7 meetings so he began having meetings with the G-7 EDs who had not been meeting for four or five years. And, of course, if you start meeting with these guys, they're going to have preparatory meetings. And suddenly what used to be the budget position of only the Anglo-Saxons among the G-7 became a G-7 position. There was no G-7 position. The Japanese never had problems with the budget. The Germans were fairly relaxed. If you want to have a good public institution, you have to be prepared to pay for it. It was never much of an issue.

KRASKE: One mistake he made was that at the start he did not clearly distance himself from the approach designed by Preston.

HERFKENS: No, he didn't. He just said in his first meeting with the Board that he didn't know if this institution had to be down-sized and that he wanted to find out how he can right size the institution. The story in the Financial Times that he was going to cut even deeper was absolutely incorrect.

KRASKE: Well, thank you very much. All the best for your next assignment in Geneva, and perhaps one day you will come back to this institution.

HERFKENS: I hope so. I would really love to.

[End of Session 2]
[End of interview]