

**WORLD BANK HISTORY PROJECT****Brookings Institution****Transcript of interview with****EUGENE ROTBERG  
Former Vice President and Treasurer****Date: November 2, 1990  
Washington, D.C.****By: Richard Webb, Devesh Kapur**

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

**ROTBURG:** The Bank has four key constituencies. One is the developing country itself. That constituency would like to have, as a practical matter, loans with as little, quote, “red tape”/conditionality/controls as possible and at as low a cost and with as little risk as is possible. The Bank was formed to service that constituency. These developing countries believe that all risks of “creditworthiness” should be borne by “The Bank.” That’s the first constituency.

The second constituency are those who, in effect, indirectly guarantee, not the borrowing for the Bank (because they are in fact not guaranteed), but provide callable capital to back up the credit risks on loans. I draw a fine distinction here. It’s important. The Bank doesn’t guarantee bonds; the Bank’s Articles require that if the Bank doesn’t have the resources to meet its obligations to bondholders because the interest or principal isn’t paid on the loans it makes, countries must provide more capital. The Bank is limited to not how much it can borrow, but how much it can lend. That’s always written up wrong by journalists. The Bank can borrow whatever it wants—there is no limit. Anyway, that’s the second constituency: those countries who have their callable capital at risk.

Are they different from the first category? Sure. If the Bank lends to Mexico, Brazil, Peru, Philippines (and those are, quote, “loans which are at risk”), they may not meet their obligations to the Bank and the Bank, in turn, may not be able to meet its obligations to bondholders, then it is a potential enormous tax burden, now way over a hundred billion dollars which will have to be paid out of the taxes of the industrialized countries to meet their callable capital obligations. And that money will flow from those industrialized countries’ tax bases to the private bondholder because, if for example, Mexico, Brazil doesn’t pay the bank. The industrial countries therefore put pressure, subtly, from the very beginning, “Watch out to whom you lend; watch the concentration of lending; be careful of the kind of lending you do. If IDA [*International Development Association*] funds are not available, don’t make up for it with Bank lending if the country is in fact not credit-worthy. So that if Pakistan, Burma, Bangladesh, Upper Volta are having major problems and IDA isn’t enough, don’t expect to fill that gap by borrowings which indirectly are backed by Britain, France and the U.K. by going out into the bond market to finance it.” So, that’s a second constituency. They tend to be more conservative, more cautious, more careful because it’s their callable capital at risk.

The third constituency is the financial markets because if you look at a Bank balance sheet very carefully—I don’t know what the balance sheet now is, 120 billion dollars or so—only six and a

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<sup>1</sup>Original transcript by Brookings Institution World Bank history project in 1990; original insertions are in [ ] and ( ). Insertions added by World Bank Group Archives are in *italics* in [ ]. Revisions by Eugene Rotberg are not noted.

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half billion dollars has been paid in by governments. That's all. The rest comes from capital markets--the private capital markets therefore provide the funds for lending.

**WEBB:** *[inaudible]*

**ROTBERG:** What comes from tax payers? That's the usable capital; that's how much governments actually paid to the Bank. It was lent or used in operations—six and a half billion dollars. Another 9 or 10 billion came from retained earnings. The rest of the 100 billion comes from borrowing the money from the private sector—just like AT&T or General Motors. The bondholder constituency knows that the callable capital is not enough to meet how much debt is outstanding; moreover, they're unsure whether the callable capital, although it's a treaty obligation, would ever be paid in were it called; they also had very strong views on whom the Bank lends money to.

That used to be an enormous hurdle that had to be overcome. Why are you lending money to dictatorships of the left or right? Why are you lending money to countries which are corrupt or inefficient? Why are you lending to the poor? Why are you lending to countries which are subsidizing products that will make it difficult for the United States to hold onto jobs? Even today, do you think you could sell a bond issue issued by Iraq, South Africa or Iran in the United States? No. It doesn't matter how financially safe the bond is. The financial system would not buy it. They are under the same bureaucratic, emotional, sociological pressures as to where they choose to put their resources. And so if you have civil war, anarchy, why should you lend to Uganda? Why should I lend to a country which is subsidizing its rice production and I live in Southwest U.S. if I run a major pension fund? If I would not lend to them directly, why should I lend to the Bank if it, in turn, uses my funds for on-lending to those same countries.

In addition, they have been reluctant to lend to countries who are not supportive of the United States' or Britain's view on whatever international issue is then in the forefront. And, finally, "I don't trust international institutions." That's a constituency, that group. And they supply 90 percent of the funds of the Bank. That group has to be reckoned with. I think we have been successful.

You soon come to realize the only way for the Bank to earn funds, the earning capacity of the Bank is because of the charges levied on the first constituency. There is no taxing power in the Bank. And you may never, never call on the callable capital, nor has it ever been called, unless you're bankrupt--when you're in the process of dissolution of the institution, then you can call it. It's not as if it's capital that can be called to increase lending. Nor can it be called to make disbursements on loans already committed. It can only be called if the Bank essentially fails--it cannot meet its obligations, and you must call on its capital to pay interest or principal to a bondholder because the cash flow has not, in fact, come in from your assets, which are your loans to developing countries.

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In that sense, it's a little different from a commercial bank because the World Bank only has 50 clients. It's as if CitiBank or Chase or Morgan only had developing countries—which is all the World Bank has—and the depositors weren't getting paid interest because those countries weren't paying interest or principal. The bank would then collapse. The World Bank had to make sure that didn't happen by balancing the demands/requirements of those first three constituencies.

The fourth constituency is the staff. And that's a constituency. The Bank has always had an internal articulated debate whenever significant shifts occurred on its basic mission as to what it would lend for and how it would lend. And it comes out in a lot of different ways.

One way it came out, particularly in the early years, in the late '60s, early '70s, is this enormous shift to what I call non-cash flow projects, for want of a better term. I mean projects which address matters of health, education, population control.

**WEBB:** I hadn't heard that expression, "non-cash flow."

**ROTBURG:** It's lending quite unlike lending for the power sector.

**WEBB:** Social sector, is that close to what normally is, more often called social [*inaudible*].

**ROTBURG:** When the Bank began to shift to population, health, education, and later structural adjustment—but that was much later--there were those in the Bank who said, "The financial markets would never accept 'social lending' because if you build a hospital or you reduce the population or you increase the quality or the level of education, where's the cash flow to service the loan?" The staff was very insecure because they had spent their lives doing cash flow projects where there was a cash flow derived from the activity which the Bank financed. The macro-economists, however, argued that it's better to have an educated population because over time that will produce the kind of management skills as well as work force skills which will reduce the current account deficits, permit exports, earn foreign exchange generally, and permit the servicing of debt. And, indeed, if a given project has cash flow and if a country is starving or they cannot import oil, they will simply take that cash flow and divert it for basic human needs, and you will not get paid anyway. That was the articulated debate. Yet some staff, if you spent your twenty-five years doing electric power projects, would say, "But the financial markets won't accept that." They turned out to be wrong.

And those were the four constituencies I think that [*Robert S.*] McNamara, certainly over time, came to recognize.

And, well, that's a long introduction . . .

**WEBB:** It's very helpful.

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**ROTBURG:** The balancing of the views of the various constituencies contributed to how decisions were made over 20 years at the Bank. At different times, various of these constituencies had ascendancies. McNamara, I think it's fair to say, believed that his constituency was the first one. That's why he came to the Bank. I think that's where his mind was; I think that's where his emotions were. I think that's where he got the most personal sense of satisfaction. He did not come to the Bank, as had some of his predecessors, from the financial community who were familiar with that constituency and who probably on balance tended to create an institution which had great financial strength but lent very little. The Bank in fact was massively under-leveraged. That is, it could have done much more, but it chose not to because of the ascendancy in the minds of the leaders of the Bank of constituency number three, the financial markets. The previous presidents were chairmen or chief executive officers of banks or investment banking firms.

The amount of lending done by the Bank by 1968--the year I came to the Bank--from its inception in the '40s, its entire history was surpassed in the year I left the Bank in three months. In other words, what it had done in 22 years, from, let's say, '46 to '68, twenty-two years, it was doing 20 years later in three or four months. McNamara came in the fall of '68, summer or fall of '68. He said, "I'm going to double or quadruple the lending over X period of time." He said, either in an informal, in a speech or perhaps at the Annual Meeting speech, "If I wanted to be a banker, I would not have come to The Bank." The bond markets were not happy with that.

**WEBB:** Oh, really?

**ROTBURG:** Well, you can imagine what that caused. It is said it caused a failure of the first World Bank bond issue in Switzerland. The Swiss were very upset. And the treasurer . .

**WEBB:** He blamed the treasurer.

**ROTBURG:** He blamed the treasurer.

**WEBB:** He told us that himself. He didn't mention his own remark at all.

**ROTBURG:** Well, he blamed the treasurer, and I then came to the Bank a few days later. And I knew little about finance. And what he said to me is, "Look. I didn't come to this Bank not to lend. I want to increase lending. There's a lot of poverty in the world; there's a lot of malnutrition and infant mortality. I would not be here unless I wanted to make a difference." And he said, "Gene, your job is very simple. I'm going to lend; you must find the money." He said, "Your job is to show the financial people who have wealth in the world that there is nothing inconsistent in having a high quality financial institution lend for development. Your job is to overcome whatever political resistance there is. That's your job." He said, "I am going to do a lot of things that you're going to have to handle because I am going to lend--a lot."

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Keep in mind, the Bank is transferring resources again to the poorest in the world--not the poorest, because IDA does that. And they're getting money from the richest in the World, but it's not charity, it's at a market cost, whatever interest rates are. Fundamentally, the rich do not lend to the poor anywhere in the world. Banks don't lend to the poor. The World Bank is an intermediary. So the key was to create a financial institution which was strong enough so that that third constituency, the financial markets, would be absolutely convinced that it was the safest investment they could make because the financial structure of the institution--without the cost being borne in an inappropriate manner (by charging too high a cost) to the first constituency, the developing world. You couldn't say, therefore, to the bondholder, "You lend me money at 10 percent. I am going to lend it to Mexico at 20 percent, and, therefore, you have nothing to worry about." And then Mexico has to pay 20 percent. That couldn't work. So the key was to create the financial institution which met the demands, requirements part of both those constituencies. And that was the main job of the Treasury.

The second was to make the argument--and this was more complex--that apart from the financial structure of the Bank, what the Bank did, to whom it lent, the kinds of loans that it was making, were in fact not inconsistent with the narrower self-interest of any one nation-state whose financial markets supplied the funding. That you could justify lending to a country, to its people--though you may not have liked the political structure of that nation--if you could have growth, more jobs not less, lower infant mortality, increased trade, competition for products, that over time would make for a healthier and safer world than one in which countries who were poor had no chance. And, the appeal, therefore, was to the broader self-interest of the financial community.

What I'm trying to say is that when I spoke, perhaps hundreds of times to the financial markets, perhaps half of the remarks dealt with pure financial matters--liquidity, cash flow, guarantees, diversity of borrowings, why we tended to borrow more than, quote, "we had to," why we borrowed in places that nobody ever borrowed before, why we started to borrow in the Middle East, in Saudi Arabia five years before the oil price increase, why we started to borrow in Japan before the massive increase in their surpluses, why we started to open up new markets in Germany was because we would have a tremendous diversity of sources of funding and wouldn't rely on one currency or one source. I won't give to you the financial strength of the Bank--I can do that at some other time if you'd like as to that--or why we were not going to run the Bank by relying on its callable capital. I basically would argue, "Forget the callable capital. Let's pretend it doesn't exist. There really are no guarantees. I want to know if you want to buy this institution's bonds purely based upon the internal financial structure. What I am telling you is it's stronger than any other corporate industrial or possibly even industrialized countries' own obligations. The only difference is we can't print the money. So you just look at us as if we're the private sector."

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That was half of the speech. The other half was on the lending operations. The fact is that I and my colleagues in the Treasurer's Department made more arguments, speeches, and evaluations of the lending operations of the Bank than did those doing the lending. We had to justify the lending to the financial community.

*[End recording on Tape 1, Side A; the following text exists as transcript only]*

**ROTBERG:** Over time, the financial community came to accept the fact that lending to governments not supported by “cash flow” was okay, if it contributed to growth. They came to understand why we shifted to education, population, health, and later (as I believe these were precursors) to structural lending. The only difference is that the latter had somewhat more strict potential macroeconomic conditionality which went beyond the sector—at least they were couched in those terms. I am not so sure that there were shifts on what the macroeconomists were doing in '68 compared to 1990.

Conditionality was controversial from the beginning. It wasn't publicized in the press but people were commenting on the Bank because that fourth constituency, the staff, was split. David Hopper will tell you an interesting story that when he went to Bangladesh on one of his many visits, he told this story. He was telling the then Prime Minister of Bangladesh, “Why don't you implement this program and pull the subsidies and have a more market-based economy in this sector?” And the Prime Minister said, “David, do you know that five of my last six predecessors came to a sticky end?”

The initial reaction toward structural adjustment lending or noncash flow projects was adverse. It was difficult for the Swiss. So, we simply built a financial structure in the early 1970s with lots of liquidity, diversity of loans and sectors, quality of lending, etc. Once that structure was employed, the institution then had the capacity to borrow.

The World Bank is not a deposit-taking institution, it issues bonds. It's far more difficult to raise money in a bond market for a 20-year maturity than for three months. In three months, you change your mind and put your money in another bank. Here, the money is stuck for 20 years. So you've got to convince people that the institution is going to have a set of policies which will be longstanding and safe because they don't want to have bond prices drop, other than for changes in the interest rate. They don't want to see a decline in price because of concerns in the quality of the credit of the institution. Essentially, what happened as each year went by, the Bank's financial strength became greater and greater though the leverage became greater and greater because it was lending more.

As you may know, McNamara had the reputation for being preoccupied with getting the “brightest” people he could find. But, he would say, “No, no, they have to have great judgment.” Nonetheless, he was not threatened with having some very accomplished people around him. He

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instituted the Young Professional Program and it took off. There was never any pressure to take someone because some head of state recommended him or her. The Bank took around 40 or 50 “young professionals” out of 5,000 applications. So the Bank ended up getting, for better or worse, the child prodigies of the world in economics or finance. Through the process of immunizing the staff from any other external pressures and because of the rigidity of the selection process, each year there would be extraordinary men and women coming into the Bank who had a commitment to development on one side and had wonderful technical skills.

Second, he also did something that I know his predecessors did not do. That was disdain for decision-making based upon accounting conventions. He would look for either the financial wisdom of a transaction or possible economic justification on the lending side--very difficult to quantify, as you could imagine. But in finance he would say to me, “Gene, I don't care what the accounting statements show, if you have decide whether to buy or sell, do that which produces the highest financial return, not what will show up the best on a P & L [*profit and loss*] statement.”

I'll give you an example. Let's assume that you make an investment at 100. And it drops in price to 90. In the world of accounting, as long as you don't sell it, you have no loss on your P & L statement. And the bank has a profit-loss statement. If you sell it and if it costs you \$100 million, you show \$10 million less profit, less reserves, that much less for IDA. Suppose on December 15, assuming your fiscal year closes on December 31, your colleagues are sitting around and saying that you had bought this for \$100 million and it's now down to 90, and you think it's going to go down to 80. The pressures in the bureaucracy are, “Don't sell it, wait until January 2, then sell it. I don't want to show a loss on this year's statement.” But, financially, you should sell it at 90 if you believe it's going to go to 80. You should in fact sell it at 90, take the \$10 million loss (you may be right, you may be wrong, that's irrelevant: the point is what you think) , if you think it's going to 80, sell it. Forget the accounting consequence.

The point that I am trying to make is that McNamara said to ignore the accounting conventions. If you want to sell at 90, sell at 90, because otherwise you are not being rational. Rationality is extremely important to him. Don't not sell it because the accounting conventions make you show a visible loss. You already made a mistake, the fact that it's visible is not important. So he assured an enormous sense of integrity on doing that which is rational rather than not doing that which you want to do because you won't look good. I found him very forgiving of failure or a mistake and totally unforgiving of not being open or truthful about your concerns. He would rather you say, “I don't know, I am not sure, I am uncertain, I'll give you the probabilities involved.” He forced you to make a decision but insisted that you let him know whether you were unsure about it. As distinguished from other managers who ask you to have a pretense of certainty when you in fact don't have it.

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In his earlier years--I know this is not a study of him personally, but you cannot separate him from the history of the Bank--was the accusation that he was totally preoccupied with quantifying things. In fact, it's not true. Sure, he asked you to defend your positions by quantification first, then always by quality or judgment or probability--your assessment.

He would insist upon using all of the academic tools: quantification, econometric models, sensitivity analyses, regression analyses to reach decision. That was, to him the beginning of the process. Quantification was just the surface.

A next step always was, "Let's consider the policy considerations." The next step is, "What can go wrong?" Then, "What are all the pluses and minuses?" And it was adversarial in the sense that he would, in a large meeting, often go through this whole process. If you did not have a very strong sense of self--I don't mean in an egotistical sense but that you felt uncomfortable with having to defend yourself against a very strong, confident person--you would have a difficult time at the Bank.

If, on the other hand, you said, "Look, Bob, this is the way we are going to do it, and these are the twelve reasons that I want to make this loan, these are the four reasons against it," and went through all of the analyses, you might have a big argument on your hands and at the end, he would either say, "I agree with you or I disagree with you and you're overruled." If it turned out that you were wrong, he would never say a word.

But you had to understand that he did demand an open debate on everything. If you talked to Joe [*D. Joseph*] Wood or John Adler, you'll see that McNamara would take these 20-year projections. They were simply goals and "what ifs." He built the Bank, because it was a tiny little institution when he started. If you were brought up in a typical bureaucracy and afraid of your boss, you were in deep trouble. He sensed that immediately.

Before 1968, as you may know, the World Bank was perceived to be a U.S. institution. And through McNamara, and later [*Alden W.*] Clausen, and to this day [*Barber B*] Conable, that slowly changed. Germany and Japan and France and England have fully as much influence in the Bank. That was not by accident. The reason it was not by accident was because the stockholders that provided the resources for the Bank not only were increasingly concerned because it was their citizens who were buying our bonds but it was their market whose savings were going to be used in Malaysia for equipment coming from Switzerland or Belgium. It was really a transfer of real savings to another nation. The other nation was not the developing country (they got the economic benefit). The other nation was Belgium or Switzerland. It was their competitive bidding that won the contract, financed by Japan or Germany to put a generator into Mexico. So they began to look very carefully at the World Bank's policies on lending and procurement.

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By the time I left the Bank, the United States was rarely used as the source of funding for the Bank. My guess is that it may have been 10% of the Bank funding that was from the United States, as distinguished from dollars, which were lent by Japanese, Dutch, Germans who would buy in the so-called Euro-bond market. I looked at, “Where is the money coming from? Who owns the money?” Who prints the currency is quite irrelevant; it was rather whose savings we were using. U.S. bond markets and U.S. pension funds and insurance companies were a minor fraction of the financing of the World Bank. In part it was done so as not to rely on the United States' capital market for a source of funding. The United States sometimes goes through periods where it becomes rather parochial and somewhat ethnocentric. It is not a country whose financial system can be reasonably expected to be open to international institutions. And the United States, as much as any other country in the world, uses that word, on occasion, as a pejorative. And I for one did not want to rely on that as being the sole or even the primary source to fund lending to Korea or Mexico or Brazil. My instinct was, and is, that it is wiser to diversify--not just for financial reasons but, for want of a better term, political-social reasons.

The Dutch, when I left the Bank (1987), had supplied as much money through their bond market as had the United States. Nonetheless, the United States exercises a virtual veto power. I say “virtual” because, as you will learn, there are dozens of times when the United States opposed things when they were simply outvoted. But on other matters that are quite important, they have virtual veto power because of the enormous importance of the United States to IDA. You would get, over the years, trade-offs: “If you don't do this in the Bank, we'll drag our feet on IDA.” And it's not just the United States. You will hear if you ask the Japanese, there were times when the Bank had some difficulties in the '70s of borrowing in Japan. Not because of financial reasons, that is, the quality and integrity of the financial structure of the Bank--indeed, not because of disagreements on the lending program--but because they were uncomfortable with the few Japanese at high levels in the Bank. Inexorably, the way to create the leverage is to say we will not give you access to our markets. As you may know: the World Bank cannot do a bond issue unless it has specific, articulated approval to do it from a government whose currency or market is being tapped.

**WEBB:** Before you were talking about the four constituencies, one being the investors?

**ROTBURG:** Yes.

**WEBB:** They do have certain political preferences/reactions and this is a consideration--government officials that you have to go through first before you borrow.

**ROTBURG:** That's right. The first step is a government official, and it's the Secretary of Treasury in the U.S. It's required to get a government approval when you borrow money in a country and you must get that government's approval if you borrow that country's currency in another country. If I want to borrow dollars in the U.S., I get U.S. Secretary of Treasury

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approval. If a Japanese trust company or bank says, "You know, we would like to invest money in dollars," I have to get both Japanese and U.S. government approval, even though none of the savings is coming from the U.S. It's because it's the "U.S. currency." That's in the Articles of the Bank. That approval can be denied for any reason. "We don't like the percentage of staff of our nationality."

Paul Volcker will tell you--although he may not remember it--that one day I went to his office when he was Undersecretary of Treasury. I wanted to increase a bond issue to central banks from \$150 million to \$175 million. And he said no. I said, "Paul, what are you talking about? It doesn't mean a thing to the U.S. markets."

He was at that time in a great controversy with the French who were complaining, yet again, that the United States was not conducting its affairs properly and that the United States should constrain, in some manner, the borrowings of the United States. Paul said, "This is example number one. We're not going to let you borrow any more money, not even from central banks." In other words, we were often used as the vehicle to make some kind of point by one government or another.

The British, for a decade, said to the Bank that they couldn't borrow any sterling. Period. And if we do permit you to borrow sterling once in ten years, you must keep it invested in sterling in the U.K. You cannot use it on loans. You will buy U.K. government bonds with the proceeds of any borrowing. You therefore may not disperse those funds on loans. They later lifted those restrictions, but it was ten years.

When I was at the Bank, for ten to fifteen years the Bank could but once borrow from Italy. Other countries, including Germany, would say on occasion, "You can borrow the money as long as you disburse it immediately," because of foreign exchange consequences. Other times they would say that you could borrow the money but under no condition could you disburse it. The Japanese would say to us on occasion, "You can't borrow the money, and if we do let you borrow it in very minor amounts, you can borrow it but you must buy Japanese government bonds. Don't disburse on loan. Use some other country's currency for loans." The United States would say, "We have terrible balance-of-payments problems (this is during the '70s) and we have big current account problems and we don't know what's going to happen--whether the exchange rates are now going to float--and you can't borrow more than 10 % of your needs from the United States." I had to function in a world where there was constant moving, shifting agendas from governments, depending upon the financial conditions. This is the early and mid-'70s. McNamara, meanwhile, has this massive lending commitment program where the disbursements aren't on stream yet. They are going to occur in the late '70s. I've got to get the funding. Fortunately, the oil price quintuples and there are massive shifts in world savings. Despite the

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diversity that was set up for five years, where is the money going to come from? Governments are now looking inward.

Fortunately, by that time, we had established so many different sources of funding we were able to get through that period. And when we got through it, we began to see the dismantling of regulatory controls and the Bank had an unbelievable base of access to markets where it could borrow in as many as 20 different currencies. It was known in the markets that the structure we set up was that you never borrow when you have to but to assure that you always have a diverse source of funding and not rely on one pool of savings. We, therefore, borrowed before we needed to and actively managed our substantial liquidity. Eighty percent of what the World Bank commits on loans is what you have to borrow--sooner or later.

That's it.

**WEBB:** So when you approached the Treasury for permission to borrow, their agenda could be quite different from yours.

**ROTBURG:** Of course. Our Board did not know which countries turned us down to access their market or why.

**WEBB:** The Treasury is normally the person to who the ED [*Executive Director*] would be relating.

**ROTBURG:** Yes. But the ED may visit you at your office privately and say, "Look, we've got a lot of problems here on balance-of-payments or interest rates or pressure on our currency or capital shortages. But, you are coming to us and having these negotiations. Don't come to us for more than X. That's it." That conversation does not go to the Board. What goes to the Board is the final allocation of markets and currency for the year.

Now, I don't want to overemphasize this because for the most part the countries where we began to do the heavy financing were more willing than not to open up their markets because it prevented their currency from getting out of hand. Also, they had huge financial surpluses. It was the U.S. with which we had the most difficulties. My point is that even Germany and Japan had difficulties when the oil prices increased in '73. They were having a lot of inflation. They had major current account deficits, and they had a political problem. Here comes the World Bank to borrow money when interest rates were already at 10%, their currencies are under pressure, and the flow of capital world-wide is coming to a halt. But, still, under the circumstances they were helpful. And we could wait until matters stabilized because of our previous "overborrowing."

*[Start Tape 1, Side B]*

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*[Resume recording]*

**WEBB:** What were some of the other pressures?

**ROTBERG:** We were asked why we should borrow savings and take it out of the country to finance contracts that might be won by some other country. Or it could be narrow parochial issues such as staffing of the Bank by nationality or political pressures from a few congressmen who were upset about loans to a particular country which then got transmitted to Treasury. Those problems always had to be coped with.

During my period at the Bank, I can almost without exception--and I don't mean by that there are exceptions--the staff was immunized from those pressures, that is to say, with McNamara, Clausen, Conable, they took their lumps personally and would say to the U.S., "You'll get outvoted." The U.S. would then say, "Well, we'll have to reconsider access to markets." And inevitably the impropriety of saying that or the inappropriateness of saying that became more and more evident and it was used less and less. After all, if the U.S. or anyone denied access to markets, who would get hurt: U.S. investors, of course, who had billions of our bonds.

**WEBB:** Quite gradual, though, wasn't it?

**ROTBERG:** It was gradual. It was gradual. It was partly because of the de-regulation of markets, partly because it was simply a realization that this is not an institution which should be controlled by the narrow, political desires of two congressmen somewhere because the staff was trying to make good loans and wise decisions for a good purpose. Don't take it out on the Bank by having some clause in a bill which says that you don't get this money if you make loans to a country which exports wheat. Something like that.

Moreover, when McNamara came, he was considered--particularly when the Republicans won the elections--an outsider. He was also considered some kind of a wild radical in terms of trying to get rid of world poverty. This was not the language of the Administration. So he had an uphill battle. At the same time, his personality was not such that he could easily diffuse criticism because he did not look upon the U.S. Congress or the U.S. Administration as his constituency. After Vietnam, he also had few friends on "the left." His constituency was the developing world. And as for the political people in the U.S., I don't think he would see them at all. He just didn't want to bother with them--and that applied to Germany and Japan. I can remember on one occasion where the Japanese were very offended. He landed at Narita airport and then went on to China. You know, he just didn't want to bother. To him, he was just too busy making quality lending programs to poor countries. He already had the capital from the markets.

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On occasion I would say, “Bob, we've a problem here. They aren't going to give me access to market!”

And he would say, “Oh you know, they will. It's in their interest. It'll work out.” And it did.

And I must say that Clausen also was not responsive to inappropriate pressures from any government. And the U.S. over time began to realize that they would simply be outvoted. And second, there were enough cooler heads at the Congress not to permit inappropriate constraints on what the Bank could do. And, finally, certainly under Barber Conable and Clausen, a personal relationship developed with the Secretary of the Treasury and clearly the Governor, Paul Volcker, the central bank governor, which diminished problems considerably.

**WEBB:** I don't really understand the mechanics of getting permission to borrow. Is--the Federal Reserve gives the permission in New York?

**ROTBURG:** No, the Treasury.

**WEBB:** It's the Treasury. The Fed's only a bystander.

**ROTBURG:** No, except that it's 1982. Jim [*James A. III*] Baker has just been visited by the Mexican delegation and is told, in effect, “We're going to announce very soon at the Annual Meeting a moratorium on payments to your banks.” Jim Baker gets nervous, and he'd better have a plan in place. That plan contemplates substantial increased World Bank lending, as well as increased commercial bank lending. Paul Volcker is very concerned at the Fed because of the safety of the banking system and the publicity attendant to the United States should its banks be faced with a public moratorium – this is when interest rates are 17, 18 percent. It would be indeed anomalous at that time for the Fed not to be talking to the Secretary of Treasury. “You better not prevent World Bank access to the bond markets because you don't like the fact that they lent for rice production in the Philippines because we have bigger fish to fry.” So, inexorably, the central banks wanting a safe banking system which is vulnerable to LDC [*less developed countries*] problems, certainly does not want a Treasury to constrain the World Bank's lending during a period when those are the only funds which would be available to pay the banks.

Slowly the bank staff, that fourth constituency, became more confident about its leverage. “You want to prevent the World Bank from lending? Fine. There's only two things that are going to happen: commercial banks will fall apart because there will be no increased net transfers, and second, and more important or just as important, it's your callable capital at risk.”

Keep in mind there's another very interesting point involved. When you borrow only in one country (which we didn't do), but suppose we had borrowed just in the U.S. and U.S. institutions have all the debt, it's obvious the U.S. has more authority, more power. But let's assume that

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imprudent loans are then made to countries in a manner or a quantity or quality and the Bank falls apart, interest isn't paid. (As you may know, the Bank has never had a default from a large, middle-income country; Argentina, Mexico, Brazil, Venezuela, Philippines, et cetera, never defaulted to the Bank.) But suppose it were to happen under this hypothetical where the funds are all coming from one country, and France, England, Italy, Germany and Japan are pro-rata called on the callable capital, which is what the Articles require. It doesn't matter where the bonds are. The call, once you can't meet an obligation to a bondholder, is pro-rata according to your capital contribution across countries. And the French have to pay and the British and the Dutch and the Germans have to pay their tax dollars to pay Prudential Life Insurance Company? The moment the Bank began to borrow in many countries, it in effect has made the callable capital of those countries, quote, "safer" because it's their citizens who own the bonds. They're simply meeting their callable capital obligations, which is a legal requirement, with a political necessity to do so because their citizens are the bondholders. Now, that has not been publicized. So therefore when you talk about the safety of the Bank, "Well, maybe X country won't meet its callable capital," well, if you don't meet the callable capital, it's their own citizens in Japan, Germany, France, Holland, et cetera, who are owed the money. They own the bonds. So it has added political reality to the legal obligation to pay.

**WEBB:** Brazil would have to take on the world [*inaudible*] rather than just the U.S.

**ROTBURG:** Of course. I mean it's the German and the French and Dutch and Belgian insurance companies. They're going to say to their finance ministry, "You're not going to pay us to pay our own bondholders--your citizens and voters?"

And by the way, we also borrowed in their own currency. So what that meant was when we borrowed in Belgium, we borrowed Belgium francs; when we borrowed in Japan, we borrowed Japanese yen; it doesn't even hurt their foreign exchange position. They simply print the money. Even if I had borrowed in Peru.

**WEBB:** What do you mean?

**ROTBURG:** If I'd borrowed in Peru in local currency, Peru will never default on its local currency obligations. They'll simply print the local currency. And if they have to pay their capital in local currency, it will simply go to their bondholders in local currency.

The danger is when you have to pay it in dollars, but that's not what the Articles require. So you always borrowed in a weaker country in its own currency. That also relieved some of the pressures on the country.

There's another aspect I'll talk to you a little bit about. McNamara would often ask our underwriters what do their bondholders think of the World Bank. They'd write back, "Well,

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these people in Texas don't like their pension fund money going to support a development institution that lends to Mexico."

So McNamara says, "They don't like what we're doing?"

"No."

"Well, what are you going to do, Gene?"

I say, "I'm going to go down there and talk to their pension funds and insurance companies and show them why they're mistaken and why this is a good investment, a wise investment, to buy our bonds and why it's in their self interest."

He said, "I don't want you doing that."

I would say, "Come on, that's what I do for a living."

He says, "You'll convince them that it's financially safe?"

I said, "That's right."

He says, "And you and I know it is financially safe?"

"Right."

"But, damn it, if they still have prejudice and they don't understand that we're doing a good thing, good in the ethical sense, I don't want them holding my bonds. I don't want those kind of people as my bondholders." It's as if they were his social guests! "I don't want them my house if they don't understand that we're doing good."

I said, "Come on, now."

You will hear a lot about the non-political nature of the Bank. Here are some examples. There have been a number of wars between Israel and Egypt, Israel and Syria, Israel-Iraq, between '68 and '73. Israel was borrowing money from the Bank at the time. And if you were to check the record, I don't believe that the Saudis or Kuwaitis noted "no" on loans to Israel. They abstained, which is a very interesting point. This is during a war, and Kuwait was lending money to the Bank, as was Saudi Arabia. Now all money, as we all know, is fungible. That shows the integrity of the Bank. And, conversely, Israel was not voting "no," and I think it did not even abstain: they voted "yes" on loans to countries with whom they were at war or if not at war where there was clearly support for their adversaries particularly in northern Africa.

Second example. Lebanon was in the midst—I've forgotten the year; mid-'70s, I think—terrible civil war where there was enormous bombing—this was in the mid-'70s—and the central bank

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was hit and the country was a physical shambles. That's where it is today, too, but this was during the worst of times. They never missed an interest payment on a debt to the World Bank. I even had done a bond issue in Lebanon in Lebanese dinars. We borrowed in Lebanon. It would be unthinkable that you would not meet your obligations to the Bank, even if the country was a shambles and the purpose of the loan didn't exist anymore.

Third example. Iran. I had to go to Iran twice. I had negotiated when the Shah was in power to borrow rather substantial amounts from Iran. The first thing that happened, the Shah of Iran tells McNamara when he's still strong and powerful, "I don't want you lending for agriculture." (You ought to get some more direct information on this.) "I want you lending for infrastructure and industrialization in Tehran."

McNamara said, "No way. Your country already is having this enormous explosive growth but have a very, very weak agricultural system." And I'm sure that he also had in the back of his mind that you have this country yet again further divided between rich and poor, and the poor are agriculturalists. And my guess is, knowing the way McNamara thought, he realized that the social-political-religious schisms that were developing in the country were not wise. But we had already lent 700 million dollars to Iran, and it was a constant problem.

In short, McNamara said, "No more loans. We will not lend it for the purposes for which you want it."

And the Shah said, "Get your office out of Tehran. We don't want you in Iran anymore." And so we had to pull out of Iran because of a disagreement on lending policies and the distribution of wealth and resources in Iran. Yet we'd already lent them 700 million.

Iran's reserves keep building. McNamara says, "Gene, I want you to go to Iran, and I want to borrow money from Iran now. It's a rich country now." This was after the oil price increase. He said, "Go see [*Jamshid*] Amouzegar," who was the finance minister.

I said, "Okay." So I go to Iran, and I negotiate—I don't know—five or six hundred million dollars worth of private placements with the government of Iran, the central bank. So we lent them 700 million and they lent us 500 million, something like 4 or 500 million dollars—private placements with the government.

And then, the Shah begins to lose power and the government is overthrown, [*Ruhollah*] Khomeini comes to power. Hostages are taken. I'll never forget this. And Iran's assets, just like Iraq's are frozen. But I'm the Treasurer of the Bank, and I have signed my name that I'm going to pay interest and principal. And the United States government says no U.S. bank is going to pay it. And, lo and behold, the agreements say that I was supposed to pay the interest to the Fed in New York, and believe me, that's frozen as are the accounts of Iran in any U.S. bank. I've

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forgotten who was president of the Bank then, if it was Clausen or McNamara. But I've always felt if you are an international institution set up by treaty and you sign your name, "I promise to pay you," you pay. You know, a contract is a contract. It's an international, non-political institution.

To make a long story short, I made the payments on behalf of the Bank to Iran, making sure that the Bank was protected. And there was not a second thought given—and the U.S. knew this, too—there was not a second thought given that the World Bank should not meet its obligations though we couldn't meet them through the normal vehicle of a U.S. bank or the Fed, those obligations were in fact met through a European bank.

Iran had, conversely, all of its assets, as you know, frozen. And three weeks later, they owe us interest on 700 million. And the interest they owe us is greater than the interest we pay them. Remember we had lent them 700 million and had lent us 500 million. The interest payment is due in January or February. So I call them up. I call the central bank. I don't know who at the central bank; I know they owe us interest. I paid them and they are going to find a way to pay us, I don't care how.

I get this call from a guy who talks to me and says, "Do you know who you are talking to?"

And I said, "No."

He said, "Well, you're talking to one of the captors." He says, "You're talking to the U.S. Embassy."

They had routed that phone call right into the U.S. Embassy; it was being monitored. The next day I got a call from somebody at some intelligence agency, "Why were you calling Iran?" Apparently they were monitoring all phone calls that were routed into the Embassy.

I said, "I'm calling to get paid the interest."

I finally sent them another telex. I got an answer back, and the answer came back, "We honor our obligations. We noticed that you have also honored yours as an international institution." And they paid—not through a U.S. bank. And they made every single interest principal payment to the Bank, right through the hostage-taking, the freeze. And I don't know if the loans are still outstanding to this day. They set up a special account outside of the U.S., so we could get paid, and we in turn paid them.

So there was always the sense that you should conduct your affairs in a proper way and not be subject to political exigencies, problems that you have got to be immune to, no matter what your own nationality is. And you'll see that throughout the Bank. You see—when I was at the Bank,

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we managed a liquidity which was 23 billion; Iraqi and Iranians, Israelis, Turks, Syrians--all working together. It's really quite remarkable.

**KAPUR:** I saw that the Bank had borrowed from the Libyans.

**ROTBURG:** Yes.

**KAPUR:** And in the mid-'80s [*inaudible*] that's a very separate thing.

**ROTBURG:** Libya has oil reserves. I even borrowed from India. [laughter] I'd borrow from anybody. I'd borrow from Libya, India, Lebanon. I mean--the idea was that money is fungible, and what was Libya going to do with their foreign exchange reserves, put them in U.S. government bonds to support the U.S. defense budget? What do they do? What do you tell [*Muammar*] Gaddafi: "You have dollars. You earn dollars because you ship oil. Oil is paid for in dollars. Do you want to take the dollars? Do you want to give them to Chase Manhattan Bank or CitiBank? What for?" Essentially the argument we made is, "You have dollars. We'll give you the wisest, safest, most decent way to deploy them." And it's also safe because the Bank's assets are immune from confiscation by government action, so that, for example, if Peru, Mexico and Venezuela are nervous about having foreign exchange deposits at the Fed or with a U.S. bank, that they can buy World Bank bonds which will not only do some good but which will be immune should they be unable to pay their debts. We are not like a commercial bank coming in and taking their money and offsetting their debt.

As you can see, the world of finance is not really very much separate from the world of politics, although you'd better not make decisions for political reasons. What you do is you make financial decisions for wise reasons until you build up the financial strength which can show that you're objective, fair and strong. And then you begin to set up a series of protections to make sure you are independent. You must diversify.

McNamara, as well as Clausen, never interfered, nor Conable, with the minutia of with whom we dealt. I don't know if you know much about the world of international investment banking, but it's a big thing who you choose to be your underwriter, firm A or firm B or firm C. There was never the slightest pressure from any of the presidents of the Bank, based on their friends or who they knew, who I should deal with. And keep in mind, I had a--and my staff had an obligation. If you look at the balance sheet of the Bank, we had the 22 billion dollars in cash, liquidity, on one side, where it was going to be placed and what's going to be done with it, and on the other side we had the control over 80 billion dollars of borrowing--who was going to be our underwriters? Never any interference.

**[End Tape 1, Side B]**

**[Begin Tape 2, Side A]**

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**ROTBURG:** . . . An interesting--another interesting story which shows what the standards were.

After the oil price increase, there was a need, obviously, to consider how we should increase our borrowings from Saudi Arabia. There were many meetings at many levels, both in Saudi Arabia and inside the Bank. And at one point, I had to negotiate some rather major financial transactions with the Saudis, and particularly with SAMA, the Saudi Arabia monetary authority, and with governor [*Abdulaziz*] al-Quraishi. The issue came up very early. I said--McNamara was there at the time--I said, "Bob, as you know there's a war going on right now. I happen to be Jewish and I am about to go off to Saudi Arabia to borrow \$1 billion and I have to get that visa made out and that visa asks my religion. And you should know that, you know, they may raise, for all I know, a question about that."

McNamara's immediate response is, "If they raise one question or say that you are not welcome there, we'll never borrow from Saudi Arabia." [laughter] It was as if he was doing them a favor: "We're not going to borrow from them anymore if they don't let you in their country. You know, that's unthinkable that that would happen or that I would acquiesce in that. Unthinkable!" As it turned out--and the important part of the story--was his immediate reaction, "You're an international civil servant." As it turned out, of course, not only was I welcome there, not only they knew I was Jewish, but they were particularly gracious and we had a very open set of meetings. And that applied to other colleagues also who also were Jewish who were going in and out of Saudi Arabia and other Middle Eastern countries.

That again is evidence, that there is simply an understanding that when you deal with the staff of the Bank, you're dealing with professional people who have a commitment to development as international civil servants. That's a very good atmosphere, a very helpful atmosphere in the Bank itself. If you talk to Burke Knapp, he'll tell you that the key to the Bank is that it is a professional institution, a word he'll use all the time. By that he means that you do what you think is the right thing to do.

Now, I know you have asked whether the Bank changed. I have a bias about it, which I will easily confess to.

**WEBB:** Change?

**ROTBURG:** Over time.

**WEBB:** In general?

**ROTBURG:** It's a different 1965, '67, '70, from 1990. At first blush, one may think, "Yes, there've been a lot of changes." I happen to be on the side which says, "No, there haven't been." But I define change not by the kind of loans that the Bank makes--because clearly it makes more structural adjustment loans (that is, non-project loans) than it used to, and clearly it makes more

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loans which have no cash-flow than it used to, and the percentages of where it is lending and for what purposes are different, but for the most part, if you ask someone who's been there for a long time four or five questions: "Is it different now than it used to be in terms of what you do when you go to a country?" My sense is that it's not all that different. That is, "Who do you talk to? What questions do you ask? What are your concerns? How do you make decisions? Who do you share these decisions with back at the Bank? What do you worry about? How do you exercise leverage or control to implement what you think should be done in the country?" I think that if you were going to ask those kinds of questions, I don't think that you're going to see that great of a change. What you will see is, "Well, Ernie [*Ernest Stern*] isn't involved in every project," or, "Well, I have more authority than I used to have." You'll hear a lot of bureaucratic kinds of things. But if you're looking at the role of the institution, what it has to cope with, the difficulty of getting a country to do painful things, I know that that was difficult in the late '60s and early '70s, and I suspect it's difficult today. That, to me, is what the institution is about.

**WEBB:** You're talking about lending?

**ROTBERG:** Yes. As to finance, the Bank went through a number of stages. First, how do you get the funding? Second, how do you get the funding at the lowest cost? Third, how do you get the funding to protect the Bank from exchange rate risk? Fourth, how do you pass on your costs equitably across countries so that everyone's treated the same? And, finally, more recently, how do you disburse risk so that it is potentially less riskier now than it was then (which is, by the way, a trade-off to maximizing returns to the country)? But those are things which are the normal progression of a maturing institution as to how it's going to make those balances between those four constituencies. And at different times, different constituencies need more or less hand holding.

**WEBB:** You said earlier on that the Bank could have done much more in the early years. The genius in '68, '70, '72, was more in realizing that they were sitting in a Carmen Ghia, not a Model T Ford. Was there--were there important changes in financial policies?

**ROTBERG:** No.

**WEBB:** No?

**ROTBERG:** No. You see, the change was, "I want to lend more." And then you simply had to borrow more.

**WEBB:** Stepping on the gas, as it were.

**ROTBERG:** Exactly. McNamara, on his first day, said, "Give me the GNP of each country per capita. And he looked around his office and said, "I want to get more out to these countries." So he asked me to come to the Bank and said, "Find the money." That was it.

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And the financial engineering that was used got very complex. It got sophisticated. If you go to Wall Street now, you'll see that my old staff is in extraordinarily high and powerful positions throughout Wall Street. They were all quite young and have taken on major, responsible roles in the world's financial system. And they were replaced by people who were equally as good. Some, in turn, have left. Nonetheless, there is a core staff there which has been there a long time. And they're as good as the ones who have left. And some have left and have come back.

As for financial engineering, it was implemented simply to have diversity in our funding so that we could implement the lending programs. Since money is fungible, the vehicles by which you raise funds and how you create a financial structure to make the institution strong and how you lift the constraints of access to resources is child's play. It's what investment bankers do for a living. It's not particularly difficult. Though the people in it become very elitist and they think they are the center of the universe, but private bankers are rather minor characters in terms of the world's productivity. The real productivity comes from what governments and the private sector do to make for viable economies. And what the World Bank lending officers, macroeconomists, micro-projects specialists do and recommend to make the country grow, that's difficult stuff because it involves whole social and political structures--as we will soon see in Eastern Europe. My job was to simply manage some of the brightest people in the world of finance in the world to finance it. That's not a difficult job.

**KAPUR:** You're talking about change. I'm wondering if I can engage you in that. If one looks at the sort of institution in the '60s and '70s, it sort had a more country focus to develop India or Mexico or what's happening inside them. Sort of starting perhaps from the first oil shock in '70, the Bank has been asked to take on something like the global environment fund, something that spans across national governments. It's also well known that you were involved in the debt crisis. Again, it seems to expand your role. The IMF and the Bretton Woods institutions are being asked to loosen their conditionality, lend more and so on and so forth, but again more global responsibility. Is that a change, or--and sort of what are the implications?

**ROTBURG:** Keep in mind, as you may know, I am--I'm a lawyer. When I came to the Bank, I knew little about finance. But what I mean by that is that sometimes I'm an advocate, and I'm an adversary sometimes. Although I may sound very sure at times, I know how minimal my own contribution is. But I have strong views on a lot of subjects, so I apologize if I answer you with some degree of forcefulness.

I believe that the global examples--environment, the debt crisis, the problems in Europe--are properly the concern of the Bank. But ultimately the actions must take place on a country by country basis. We cannot and should not impose a "solution" to a problem. We have neither the authority nor the wisdom to do that.

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So I don't see that as a change. You will hear from, say, Joe Wood, who will be more discreet than I am--if you ask about the Baker Plan, you know, they want the World Bank to be a major provider, say lend 25 billion dollars to developing countries, et cetera, during '82 to '85, and if you ask Joe, "Hey how did Jim Baker get that figure for what the World Bank was going to do for this world-wide global debt crisis," he will tell you that Baker simply had David Mulford--was it David at the time?--call up Joe and say, "How much are you going to lend in the next three years?"

Joe says, "Twenty-two billion."

"Fine, that's the number I'm going to put in my speech."

It was not different than the World Bank's projection. But you advertise it as, "the World Bank is taking a leadership role." Very few times have the international institutions taken a leadership role. Very, very few. One time with [*Jacques*] de Larosiere at the Fund, he really put pressures on the development banks with Paul Volcker. "You're going to lend, whether you like it or not, to Mexico." That's rare. Very rare. And if you ask Jacques, "Do you think it's happened since?" he'll tell you, "No." International institutions surely can be pressed to do what they don't want to do. But commercial banks can be "encouraged" sometimes.

**WEBB:** That's very interesting that you say that because I heard it the other way around, that it was Volcker who pressed.

**ROTBURG:** It was Volcker and de Larosiere. You see, if you go to de Larosiere now and say to him, ask him now, "By the way, we know what you did in '82 with Paul Volcker beating on the banks in this meeting. What's happened since then?" he will tell you, "Nothing."

If you look at Eastern Europe, where the World Bank had a fabulous opportunity a year ago, get the memos from the World Bank staff to Conable on what the World Bank should do about Eastern Europe and East Germany: massive lending; appoint a vice president in charge of just Eastern Europe and fill that need immediately. The Bank made a decision not to do it. Conable was concerned about the congressional reaction. He turned out to be wrong. Because the Soviet Union began to dismantle the barriers, it would have been politically acceptable. By that time, [*Francois*] Mitterand saw it. It was all within a period of one month. I wrote this little paper, "Let's form a new bank." It was unfortunate the Bank didn't fill the need. It had the infrastructure, the wisdom, they had the financial structure, they had the staff. So there's the example where they really could have moved. As a result, the EBRD [*European Bank for Reconstruction and Development*], a new institution, filled the role, basically because the European nations, particularly France and the United Kingdom, wanted an institution they could control--not the U.S.--so they asked for a new one.

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The Bank has done little in the Middle East. To the extent done at all, it's been done with the Arab Development Bank and the Kuwaiti Investment Bank.

You know, I am a bit of a cynic--my guess is that the Bank has been pulled into the issue of environment reluctantly, kicking and screaming. I know the Bank economists and I know the way they think. They probably are being pushed into it perhaps because of what they may consider to be a very wise public relations move vis-à-vis what is a very major concern of the U.S. Congress. They're going to show that the World Bank is not destroying the rain forests yet again somewhere.

**ROTBURG:** Bank economists basically are very tough, market-based types, no subsidies. And the idea that they would say to Pakistan and India, "I want to take care of the environment," when there are so many starving people to really worry about, doesn't ring true to me. They worry about the poor. That's their constituency, and that's to their credit. I don't think they think about the environment. I think they realize there is a some day problem, but I just don't think they are yet focused. Perhaps some do. Perhaps later.

**WEBB:** Could I take you back to the big picture? You must have wondered--I'm sure you've wondered more than once what the world would have looked like without the World Bank. What are some of the differences? Would developing countries have managed to develop large mechanisms for finance and bond issues?

**ROTBURG:** No.

**WEBB:** Would other intermediaries have developed for medium-term financing? I mean, there was all that money around.

**ROTBURG:** Well, keep in mind the World Bank lent very little compared to what the commercial banks lent. Commercial banks lent ten times as much, ten times as much. If there had been no World Bank, theoretically, the financing would have come from commercial banks--but without the conditionality, particularly the macro-economic advice. That is real value added.

It was objective and non-political. The oil price increase put financial resources in commercial banks. In fact, it didn't put them there; it simply moved the ownership from, say, the U.S. users of oil to Kuwait ownership. But the money was still in the bank; it didn't move anything. But I think flows would have been the same. So banks lent those funds -- without any macro advice. But from the Bank they received whatever wisdom there was to be had from the World Bank lending staff. The project people, the macro-economists had access to the highest levels of government. That they do not get from a commercial bank. And many countries--I am sure you'll be given examples--did things like, "The World Bank forced us to raise milk prices in Venezuela" or IMF did. "I didn't want to do it; I was forced to. They held us hostage, this

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imperialist institution,” knowing full well, the head of state knowing full well that he wanted to do it but he needed a whipping boy as to why he was being pressured to do it.

They heard from a lot of smart people, in terms of economic development, the need for export, growth. They were not getting that from commercial banks.

The financial and economic position of those countries became public. That would not have occurred were it not for the World Bank. The Bank opened things up.

**WEBB:** That’s changed the world.

**ROTBURG:** That’s changed the world. It’s like the SEC [*U.S. Securities and Exchange Commission*] where I used to work. It forced disclosure.

Developing countries would never have been able to be in the bond markets were it not for the Bank. And to this day--because bond markets so far are only for a very elitist group of countries, they would have been forced to go to the commercial banks. Yet more. And now, when the commercial bank loans have stopped, there would have been no source of funding were it not for the international institutions, as distinguished from the late ‘70s and middle ‘80s. But now they have the possibility of going to the bond markets--or at least some do.

I think that the Bank staff not only made public what they found in each country, but they made public what was happening in the world, so that countries being more aware of what others were doing successfully, which I don’t think you would have had if you had no Bank. You are talking about a place with 7,000 people: 1,000 economists, another 1,000 financial micro experts. That’s a lot.

**WEBB:** So was “statism” increased because of the Bank or IMF?

**ROTBURG:** As you know, we can only lend to governments. I doubt it, for this reason: there has always been available IFC or its counterpart. There is nothing that prevented a country from privatizing, and indeed one could argue they might have found it easier to borrow from commercial banks and could have always borrowed from an affiliate of the Bank. So I don’t think that the availability of those funds for state projects increased “statism.” And for the most part, those were, are and were projects which reasonable people think should still be in the government sector.

You’ll get arguments on, certainly education, health, roads, ports, and you’ll get an argument on power and telecommunications, but there are a lot of very powerful countries in the world that have been very successful which have had the public utilities under state ownership.

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You could not create the Bank now. In fact, they've had a lot of difficulty creating the EBRD. You couldn't get the staffing. You couldn't get the trust of the countries for the Bank, for the developing world to trust a staff which for the most part is highly elitist. So although the staff at the Bank may come worldwide--it may come from many developing countries--for the most part, they're educated at Oxford and Cambridge. So it's highly elitist--you couldn't get developing countries to trust a new Bank.

**WEBB:** You couldn't get the mystique, too.

**ROTBURG:** You couldn't get the mystique that it has. And you certainly couldn't get the developing countries to agree. You couldn't get the industrialized countries to have an institution which was going to lend 25 billion dollars which is borrowed from the private sector, virtually guaranteed by the industrialized countries without any interference as to where or for what it's going to go to. Without interference. It was a more accepting world at Bretton Woods.

I want to go back to another point on that, and it's a management issue. The strength of the Bank is the staff, not the Executive Directors. They have all kinds of power, which I'm not going into here, but they can effectively shut down or veto. But they are so diverse in terms of their own national interests that they have fragmented power; therefore, they have little power. They rarely have a view different from the staff--why should they? Here you have the staff which is riding on a white horse saying we should do one-two-three-four-five. What the probability that all of the nation-states in the world are opposed to it? They have their own views. And the staff knows that, so they know the French tilt toward Africa for various political, geopolitical reasons, and the U.S. tilts toward Latin America and particularly to Mexico. I mean the staff knows what's going on, that the United States is concerned about the stability of Mexico more than Brazil. But they also know that Sweden and Norway have a different set of interests, as does Holland. And they know that the checks and balances which go on at the highest political levels give the staff freedom, which they exercise and can continue to exercise so long as they maintain the image (and it is justified) that they are objective, professional and trying to do the right thing. That doesn't mean that they are not going to make mistakes, but it means that they are trying to do the right thing. And governments know that--so therefore they are being left alone. And I think what you're seeing now with the talk of global projects is, you put a few labels on it and you will get funding which you could not otherwise get, because the Bank is considered to be fair and objective in terms of how they'll use those resources; there is an enormous amount of expertise, great expertise politically neutral and ethical. It's a remarkable place.

The shame and pity of it all is that the great mistake that was made in the 1970s and '80s was that the commercial bank lending dwarfed the World Bank lending. If you just realize how much they lent, 500 billion dollars in six countries or eight countries, through commercial bank consortium loans, without any evaluation on the quality, character, type, direction of that lending

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because it was done banker-like. “Here’s the money, take it in two weeks and I hope you use it wisely.” That was one of the reasons the Bank would not “bail” out the banks later.

**WEBB:** I want to come back to that because you talked about bank loans piggybacking on World Bank, analysis, image, loans.

**ROTBERG:** The banks were not interested.

**WEBB:** So that if the World Bank hadn’t been on the scene, that money would have gone in anyway.

**ROTBERG:** Yes, it would have. Later, when the banks got in trouble, they went to IMF, first in the early ‘80s because the IMF has immediate money available and the World Bank takes six years to disburse--that’s why they weren’t paying attention to the Bank in the early ‘80s--because their monies were six-year disbursements. The U.S. simply said to the Fund, “Give the money to those countries so they will pay back the commercial banks.” It was a cash-gap analysis. That’s why the Fund was more important in the ‘80s than the Bank. When the Bank and the Fund finally got their act together and said, “We’re going to insist on economic conditionality before we make the loans,” the commercial banks said, “Yeah, sure, sure, fine, just go ahead and do it, will you? And by the way, when it comes to tranches, don’t be too tough on the conditionality of tranches.”

When the World Bank or the IMF stopped the Mexican or Brazilian tranches on the grounds they didn’t meet the conditionality, the banks would simply come into the Treasury and say to the Treasury, “The World Bank is so bureaucratic. They are holding up loans.” Just get the money out so they can get their interest. They would go around to the Treasury to put pressure on the World Bank. That is one of the reasons for the reorganization in ’87; they created an environment in the Treasury that the World Bank was bureaucratic, taking too long, excessive layering. It was totally inaccurate. There was, in fact, no delay; there was, in fact, little bureaucracy. Ernie Stern is smart and as fast as the people in Treasury ever would be. Countries were not deprived of loans because it took too long. They didn’t get a loan because they weren’t prepared to meet the conditions. That was the theory of the Bank lending officer: we shouldn’t lend any more money. When the commercial banks saw that, they went to Treasury. And then they went to the British and the French to say, “This terrible bureaucracy that Ernie and Clausen have created, Barber, you’ve got to clean it up.” He made a mistake by paying attention to it. And that, in fact, is what caused the reorganization.

**WEBB:** I never saw it that way.

**ROTBERG:** And if you talk to the Bank--ask Ernie. Say, “Ernie, why was this? Why did they have this reorganization? What pushed Conable to it?” And after a while, he will begin to talk

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about all the pressures from the Treasury to get it moving. They didn't know what they were talking about. The commercial banks wanted to write the same blank checks in '86 and '87 that they wrote for ten years. The Bank staff wouldn't do it.

The second reason, of course, was Conable, who simply was very nervous, given his personality, waiting for a consensus on a lot of things. He just didn't like the fact that Ernie, in effect, was making the decisions, and he, Conable, was not perceived as the chief executive of the Bank. He wanted Ernie out of there. That was the second major reason for the reorganization.

**WEBB:** Mr. Rotberg, this has been a fantastic hour. You opened up many questions. I guess that--we'll be working with Jessica and other people. We've already talked to Woods once. But we will want to come back.

**ROTBERG:** Sure. Have you talked to Ernie Stern yet?

**WEBB:** Briefly, too briefly.

**ROTBERG:** You've got to sit down with Ernie for four or five hours and say, "Ernie, what went on? You know, what happened here?"

**WEBB:** Yeah, before he leaves.

**ROTBERG:** Now, has he announced it yet?

**WEBB:** I don't know.

**ROTBERG:** Well, you have to go. I will look through my papers. I strongly urge a long, long, intensive discussion with Ernie Stern. Also Lester Nurick, who is the ex-General Counsel, been there for 25 years.

**KAPUR:** What about [Aron] Broches?

**ROTBERG:** Sure. Broches. But Lester—I would try Lester. Hugh Scott would be very good, too. A lot of the people who've left are upset at the reorganization--you're going to get a lot, you know, of personal upset. You also might talk to Warren Baum, B-A-U-M, who was in charge of all projects, vice president for projects, in fact, which is a big job. And Warren is a very solid, objective person.

Okay, well, I don't want to hold you up any longer.

**WEBB:** Thank you. It's going to be a long project.

**ROTBERG:** It will be interesting, though.

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*[End of Tape 2, Side A]*

*[End of interview]*

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