THE WORLD BANK GROUP/HISTORIAN'S OFFICE

ORAL HISTORY PROGRAM

Transcript of interview with

W. A. WAPENHANS

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By: W. Becker & D. Milobsky
Q: I'm William Becker from George Washington University and the Business History Group.

A: My name is Willi Wapenhans. I've been Vice President of The World Bank, and served with the Bank for 33 years.

Q: And I am David Milobsky from the Bank's Historian's Office.

Q: Mr. Wapenhans, we'd like to begin by asking you to describe very briefly your educational background.

A: As a native of Germany, born in 1931, my education was severely disrupted by World War II. I was born and raised in what was then known as East Germany. At the age of seventeen I escaped from that part of Germany then under Soviet occupation in hazardous circumstances. To continue my education in West Germany was very hard because my entire family had been wiped out during the war and I found myself without any material means.

I managed to survive and pursue my education through night school and other forms of adult education offered at the time, including one year as an exchange student in the USA. I finally obtained a degree which allowed me to enter a college of agricultural engineering. This college in turn provided a certificate for admittance to a university. I first studied Agricultural Sciences, then wrote my dissertation in Agricultural Economics and obtained my doctorate in Agricultural Economics. Thereafter I qualified in Economics
and Fiscal Sciences as an academic teacher (Habilitation) and became an assistant professor of economics at the Justus Liebig University in Germany.

As an assistant professor and member of the faculty, I became involved in research in development economics. I focussed on agricultural economies in eastern Europe and undertook research, including field research, into the economy of Greece as a potential member of the European Economic Community. This led to a number of publications. At this point, in 1960, I came to consider joining The World Bank to gain further practical experience through exposure to issues of international and development economics. I took a three year leave of absence from the faculty to join the World Bank; the leave was later extended by another two years because I was by then very heavily involved in the Indus Basin study.

That study was still not finished when the leave of absence from the faculty expired. The study had reached a critical point but I was given an ultimatum by the university to return or to surrender my venia legendi. It was a hard decision but I resigned and stayed with the Bank. This was in 1965.

Q: Now, which among your first assignments in the Bank as an agricultural economist did you view as most important?

A: I was fairly early brought into a dispute over what to do with the Indus waters following their division under the Indus Treaty between India and Pakistan. My involvement in this matter started -- I believe it was at the tail end of the Black presidency
in the summer of 1962 -- with a desk study on the economics of main stem storage on the Indus river at Tarbela. I concluded on the basis of the desk study that the Tarbela Dam was a marginal investment unless supported by a number of measures which would enhance its economic impact. This eventually led the by then newly arrived president, George Woods, to take the position that without further study this was not an investment The World Bank could readily support. In the desk study I had been guided by Bob Sadove, who was then the principal economic adviser to the head of the Technical Operations Department, Siem Alderweld. This was clearly an important assignment early in my Bank carrier.

There were other more introductory pieces of work before and during my work on Tarbela. I suppose any staff member who joins this institution in an operational assignment goes through that and will always highly cherish the experience because they represent first encounters with the exciting mission of the Bank.

I was, for instance, very impressed by my first visits to the Asian countries. I went on supervision missions to Taiwan where we supported groundwater development work. I also did supervision missions to Japan. Japan was still borrowing from the Bank in those days, and my task was to supervise area development schemes in northern Honshu as well as irrigation development and land settlement projects the Bank was financing on Hokkaido.

Q: Was this at the same time that you were working on the Indus?
A: This was in part predating the Indus work. The initial desk study probably took eight to ten weeks. As a result of the desk study, there was an encounter between Ayub Khan, then president of Pakistan and George Woods. The two agreed that a larger, more comprehensive Indus Basin study of the development and use of the Indus water resources should take place.

By way of background, the question lingered whether Pakistan had been shortchanged by the division of the waters between India and Pakistan, because India, having access to the headwaters, had a more secure and a more ample supply. The thought at the time was that this shortcoming could be remedied if one could regulate the remaining flows, thus improve the seasonal availability of irrigation water in West Pakistan and thereby extend the acreage cropped by irrigating at times of low rainfall. While that was the basic notion an equally important question was the extent to which one could at the same time generate additional hydropower. The additional generation of power was critical for Pakistan not only for industrial development and other urban uses but also because it would allow groundwater to be lifted for irrigation and thereby enhance further the impact of surface water storage and regulation. That also entailed the issue of regulation of ground water development.

The question of storage on the Indus thus began to assume a much broader significance than just the building of one dam. The terms of reference of the study, and they are a matter of record, began to be fairly comprehensive, dealing with the essential
resource base of West Pakistan's economic life. George Woods then took a step which I think was unique, I don't think it has ever happened again: He asked a sitting Executive Director of the Bank to head a group that was to organize and carry out the study independent of the Bank's regular processes.

Q: Was this Pieter Lieftink?

A: Yes. Lieftink, who was very much known for his contribution as the then Minister of Finance to the post-war recovery of his native Holland, became the head of the study. He had a free hand in selecting his staff, retaining consultants, and conducting the study as best he knew. He was given an ample budget to do so and what was thought to be a realistic timetable.

The study took far longer than expected. The final report was delivered, if my memory serves me right, to the Government of Pakistan in April 1967. At one stage we must have had as many as 120 consultants in the field. Also, the study was interrupted by war between India and Pakistan in '65. The battle lines actually got pretty close to Lahore. Consultant staff had to leave Lahore, their headquarters and our operating base in the field. Most of our files were also shipped out because we expected that Lahore would be part of the hostilities and there was a danger of losing records. We found the files again, some of them in North Africa, and some in Afghanistan. We had to gather and bring them as well as the consultants back to Lahore. This wasn't an easy period; nevertheless, there were large chunks of time when I did not work on the Indus study. The consultants would carry
out their field assignments and I would go to Pakistan at intervals of maybe four to six weeks for consultations with them and the provincial government until the survey results began to come in. In the interim I would do some other work in the vicinity - mainly in India and Iran.

One other major piece of work comes to mind: the development of the so-called Jengka triangle in Malaysia. I had been associated with that proposal early on and then again around 1964-65. This came to fruition by mid-'65 in terms of a $500 000 technical assistance grant from the Bank for a master plan study for a regional land development program. In this context, I came to know and respect highly the then Deputy Prime Minister, Defense and Development Minister Tun Rasak. He took an extraordinary interest in the scheme because of its internal security implications. Our main interlocutor, however, was Ibn Taib, the head of the Federal Land Development Authority (FLDA). The Jengka Triangle, a virgin forest in the center of Malaya, was to be developed for the purpose of settling demobilized military personnel. While Malaysia had been given independence in '58, the actual effective date of independence was postponed because of the so-called emergency. There were communist incursions, continuous guerrilla warfare and civil strife until 1960. The lack of security had much inhibited agricultural development in the central and northern parts of Malaya. On the strength of the evidence we had been given we concluded that a small hamlet type development wasn't going to work. Mind you this was before all hell broke loose in Vietnam. We had to have large scale development,
tightly administered and closely coordinated during implementation. So we opted for regionally integrated development incorporating truck farming, tree crop agriculture, and forestry including processing of produce and timber. This activity took into account the earlier work of the so-called Brandt Commission. President Eisenhower, in his last days as President, had commissioned Karl Brandt - a German emigre, who was then, I believe, with the Hoover Institute in California - to head a mission to explore the potential for economic development in Malaysia following independence. The basic message of his report was that export diversification was not only highly desirable but essential to the survival of Malaysia. All Malyasia had at that point was tin and rubber.

So when we became involved, we looked at alternative ways of using the country’s agricultural resources for food production and export diversification. We recommended area development for irrigated rice production and large-scale palm oil production on a small holder basis. Shig Takahashi, a colleague of mine, looked after rice while I was given the responsibility to do something about oil palms. There was a palm oil industry in place but it was an expatriate plantation industry relying mainly on Chinese labor and French management. It had taken off from the decline of this industry in West Africa and parts of Latin America. There was a fairly strong research base in Malaysia; around that plantations had sprung up and were doing well. Everyone in the industry, however, cautioned us that one could not use oil palms as a small holder crop; especially not if one were to rely on Malay labor because harvesting was critically important demanding reliable
logistics and a disciplined labor force. Bringing the fresh fruit to the processing facilities in a timely, unpolluted and efficient manner was basic to containing the development of free fatty acids. That is critical for the production of quality palm oil at a premium in the world market.

We, together with the consultants, developed a plan for regionally integrated development including a detailed layout for a regional smallholder development program. Subsequently, the Bank financed a series of projects under several loans for its implementation. This one scheme turned Malaysia into the largest palm oil producer in the world, which it is still today, and of high quality palm oil, based on small holder farms. In later years the US Administration often complained about this development because palm oil became a competitive threat to the US soy bean producers. Jengka became an early model for similar regional development programs in other countries. Because of the competition with soybean producers in the USA these met with strong US opposition.

Q: About what year was this?
A: Well, I think we started the master plan in ’65, and we made the first loan in ’67. There must have been four or five different loans in succession to finance the entire scheme including processing facilities and forestry developments.

Q: And all the time you were still working on the Indus study?
A: Yes. Another very early experience, in fact, one of the earliest I had, was the negotiation of the financing of the Roseiris Dam in the Sudan. I was asked to be a member
of the negotiating party of the Bank because this was one of the very early co-financing operations with the KFW of Germany. My Bank colleagues thought that somebody who spoke German would be helpful. The Roseiris Dam became important in the expansion of irrigated agriculture in the Sudan. It augmented water supplies for the Gezira area and allowed intensification of cotton production. That experience made me an "expert" on the Sudan. Thereafter I often found myself concerned with matters in the Sudan in various capacities - from Project Economist to Regional Vice President. Indeed, my first visit there took place together with El Emery, a former governor of the central bank of Egypt who, at the time, was the head of the Bank's Africa Department; my last was together with Tom Clausen shortly before president Nimeiri was deposed.

One thing I should like to mention, which I consider telling of the Bank of the day, but which unfortunately is often forgotten in its historical accounts, is the Bank's involvement in agricultural research. Agricultural research - or the absence thereof - was a major preoccupation of the agricultural staff in the Bank in the 1960s. We were urged so much to do more in agriculture, especially food production in Africa, but we had no reliable agricultural research results. This was the period during which most of the African countries became independent. In some form we were present practically in each and every African country at the time of, often just before, independence.
When I joined the Bank in January 1961, there were only four independent countries in Africa -- Sudan, Ghana, Liberia and Ethiopia. All others were still under colonial rule. It took the entire 60s and into the 70s until most became independent. Whether it was Kenya or Tanganyika, now Tanzania, Uganda or Zambia, the High Commission territories in South Africa, such as Basutoland, Bechuanaland and Swaziland, all moved from colonial rule to independence and launched development programs with World Bank or IDA support. This held less true for some of the former French colonies in West Africa or countries who became independent later on such as Mozambique or Angola. Especially in the former Portuguese colonies, though not only there, Cuban incursions under Soviet hegemonical designs had led to civil conflict and the attempt to install orthodox socialist regimes. In such situations there often was no adequate governmental and economic basis for us to intervene, let alone a security situation sufficient to allow implementation of projects.

Talking about development programs in Africa where the political situation would otherwise permit, one was to a large extent talking about agricultural programs. The agricultural research base we found in Africa was essentially limited to export crops. Very little work had been done on food crops for domestic consumption. Furthermore, the existing research base for export crops was also rapidly deteriorating. In the colonial period the research establishments had been maintained either by the colonial power or it had been sustained by commercial plantation interests.
The metropolitan powers began to withdraw their support, both financially and in terms of staff; and commercial interest began to get nervous about making further investments in newly independent African countries. France, of course, maintained its traditional role for a while longer at great expense but it, too, attempted to shift the financial burdens increasingly to IDA and other international sources of development finance. And while there was an exodus of experienced expatriate personnel many new and often inexperienced sources of technical assistance started to invade the black continent, often with questionable benefit. So the newly independent African countries faced great difficulties in maintaining or reorienting an adequate research base on which we could build in planning investments in agriculture.

This led the Bank to mount an expert mission to go around the globe to take a look at the state of agricultural research in the developing countries. The mission was headed by an agricultural scientist from New Zealand, Paul McMeacken, a former member of the UK Royal Commission of Agricultural Scientific Research and Training. He was a grassland and animal husbandry expert, though he had actually trained as a veterinarian. He travelled around the world for about six months. I think in the beginning of 1966, he came back and presented his findings: in developing and newly independent countries the research base was deteriorating not only in Subsaharan Africa though more rapidly there then elsewhere. Something needed to be done to arrest further decline and it was needed urgently. FAO had
watched it happening without ringing the alarm bells; it was now time, and appropriate for the Bank, to do so because further development depended on it.

At that point we were already thinking of supporting and financing national agricultural research. But obviously for a multitude of small countries in Africa, that was an unsustainable model. A more efficient concept was needed. So the notion of regional centers with national outreach programs was born. We could finance on Bank/IDA terms national applied research efforts, but we would have to have a grant type mechanism to finance regional centers focussed on more basic research because no single member of the Bank would be prepared to either sponsor and/or guarantee lending to such international centers. Yet some reliable financing was critical to attracting good research talent for multiyear contracts.

There was much debate as to how to get going. It took a long time until the Bank was persuaded that this was a legitimate development concern for it to take on board. The Bank was after all a bank, not a plausible sponsor or fund raiser for international agricultural research establishments. When, in 1968, McNamara came to the Bank he brought some background and understanding in this area. His membership on the board of the Ford Foundation had exposed him to efforts that the Ford and the Rockefeller Foundations had made in sponsoring agricultural research. He was, for instance, familiar with the internationally sponsored rice research in the Philippines, and with Burlaugh's short straw wheat research in Mexico.
Existing international research establishments were encountering serious financial constraints because foundations - in particular Ford and Rockefeller - subjected to a different tax regime under the Lyndon Johnson Administration - were unable to maintain, let alone expand then current levels of support. So, two strands came together, the internal concern of the Bank to strengthen agricultural research, and McNamara's understanding of the limits of the established funding mechanisms to sustain the work of existing international research centers as well as the establishment of new ones. McNamara put the two arguments together for Bank involvement and set up the Consultative Group for International Agricultural Research (CGIAR). He asked Richard Demuth, an experienced elderly statesman at the Bank, to design the institutional base for it and off we went.

Demuth wisely attached a Technical Advisory Committee (TAC) to it to ensure that the research tasks would be guided by expert wisdom. This technical secretariat was at the Bank's request hosted by FAO; its first chairman was Sir John Crawford, a friend of the Bank from Australia, who later should become a close friend and mentor of mine. I first met Sir John in the context of the Bell Mission to India. He had been given responsibility for the agricultural part of the Bell-report. It fell to Bob Picciotto and myself to review and critique his draft contributions to that effort.

The CGIAR successfully raised substantial voluntary support from a large number of member countries for sustained international agricultural research. The group is still in business though it has added to its terms of reference and changed its emphasis from
research on single crops to looking at the intricacies of farming systems. Even to this day this initiative stands as one of the finest pieces of work the Bank ever did, at least in my view.

This important development also had its origins in the middle 60s when there was a general concern that the World would not be able to feed itself in the face of the rapidly growing World population. Here I want to pay tribute to the then president of the Bank, George Woods: agricultural research, like a number of other ideas, for instance, to add the financing of education and tourism to the Bank's program, found ready support by the agile mind of George Woods. He was always looking for ways to expand and broaden the role of the Bank; but then wasn't around when these ideas began to germinate and certainly not when they began to bear fruit.

He was one of the rare and unconventional persons who led the Bank from the Black years, with their focus on securing our standing in capital market, to the McNamara years of making it into a global development institution. In retrospect, his contribution remains underrated.

Q: How did your work on the Indus study conclude?

A: Tarbela was funded internationally and built; many of the other critical components of the Indus Development Plan are still under implementation. The plan we proposed covered surface and groundwater development, hydropower installations, waterlogging and salinity control measures and catchment reforestation until the end of this century.
When we finished the Indus study in April '67, one of the large challenges in agriculture looming before the Bank was clearly India. The green revolution was barely in sight and India faced a growing gap between rapid population growth and stagnant domestic food production. Because of my work on the Indus, I was asked by Peter Cargill, in charge of the Asia Department at the time, to get ready to be stationed in Delhi as the agricultural economist with our resident mission. This had actually developed to the point where my wife and I had made all preparations to go to Delhi.

And then the agriculture division of the Bank experienced a managerial crisis. In the process of that crisis I was made the Deputy to the head of the Agriculture Division, Jim Evans. This must have been in the beginning of '67. So I became Deputy Division Chief for Agriculture. At that time the Agriculture Division was operating world-wide in all borrowing member countries. And while the Delhi assignment fell through I made India my priority task in the ensuing years until 1972.

Together with Sir John we had frequent consultations with the Indian government on matters of agricultural policy. In particular we drew attention to the disabling disinvestment that took place because of the ill-advised food procurement policy of the time. The reversal of that policy probably had as much to do with the reemergence of Indian agriculture as did the so-called 'green revolution'.

In April of '68, McNamara became president. Shortly after he arrived he turned, what by now had become very large sectoral divisions, i.e.technical divisions, into projects
departments. So, by 1969 I had become Deputy Director of Agriculture in the Bank and served in that position until the reorganization of October, 1972.

For the '72 reorganization I was asked to take charge of reorganizing the Agriculture Department into regional establishments. Upon completion of that task I was promoted to Director of the Projects Department in the newly established Region of Europe, Middle East and North Africa (EMENA). That was the end of my operational involvement in India though my carrier would bring me back later to Pakistan.

The October '72, reorganization was in many ways a defining moment in the history of the Bank. Clearly the Bank had now moved definitely beyond the technical approach of financing individual projects and infrastructure investments on their microeconomic and sectoral merits. There was now a strong and clear signal that the unit of planning, the unit of account, the unit of decision-making was the country and no longer the sector. Resource allocation was a matter of national planning based on national priorities; it had little to do with markets and the response of individual providers to their signals. This shift shaped the future of the Bank. It turned the Bank from a specialist, sectoral, engineering-oriented investment bank relying on market signals into an institution defined by economic planning, broad based, development-oriented, and no longer preoccupied with isolated entrepreneurial investment decisions.

There was a lot of mystique around this 1972 reorganization. In essence that decision turned the Bank into a development institution with a strong planning bias.
Without this added focus on the country as the unit of planning, of looking at resource
allocation in its totality, integrating the various sectors, inadvertently strengthening the
public sector and treating the private sector as a residual, I wonder whether that could ever
have happened. It probably wouldn't have.

Q: What were your responsibilities, then, in your new position?

A: Well, the typical region in 1972 included two country departments and one project
department, with the then existing checks and balances remaining in place. The regional
vice president was given additional powers of decision-making. The projects department
retained responsibility for all sector analyses, the identification, preparation, appraisal and
evaluation of all project proposals, and the supervision of project implementation.

Country departments were in charge of macroeconomic analysis, chairing
negotiations, maintaining country relations and creating the framework for the lending
program including creditworthiness and exposure analyses. Those were country
considerations into which individual lending operations had now to be fitted. In the day to
day work, this manifested itself in terms of a lively debate between country departments
and the projects department, about whether a particular project was the right kind of
investment, whether it fitted well the country's development priorities, whether the
investment in and by itself was well conceived, and carried sufficiently high prospects of
both being implemented and yielding the expected results.
The Regional Vice President became a point of arbitration in the system while the Loan Committee retained broad oversight responsibilities. Under the supervision of the vice president it was my responsibility to ensure professional excellence in manning the projects department, securing the financial i.e. budgetary resources, managing the workprogram, maintaining the quality of lending and resource use in accordance with prevailing policies, and the effectiveness of project implementation. The Director of the Projects Department became the natural adjunct to the Regional Vicepresident since he was the only manager in the stream who not only had loan proposals in all economic sectors under his direct surveillance but also for all countries in the region. It is interesting to note that this first generation of Projects Directors later on produced a large succession of Regional Vicepresidents including Mervin Weiner, David Knox, myself, Wilfred Thalwitz, Kim Jaycox et. al.

This attempt at decentralization entailed the danger that the regions would drift apart and begin to work to different criteria, different standards, different practices. Therefore, the role of the Bank-wide loan committee became more important in setting policy, standards and criteria, and in ensuring adherence so that there would continue to be a uniform approach to the borrowing clientele. In the '72 reorganization, later neglected, the Board of Directors of the Bank insisted that the loan committee would be retained. In other words, the ultimate responsibility whether a lending proposal was to be submitted for Board action still remained with the loan committee.
There is the obvious question as to whether one can - or should - apply the same lending criteria in all countries. This had already become an issue before 1972 because Africa offered very different investment opportunities from those in Asia, and Asia certainly was not homogeneous. So the question arose whether, in the absence of total resource mobility i.e. global factor markets, we needed to develop lending criteria and policies that would differentiate for marginality. In response to the objective setting in a particular country, in a particular part of the world, should standards vary or continue to follow a uniform approach to lending decisions because we were a global institution with a global membership; though at the time still far away from thinking in terms of globalization.

That tension has never been fully resolved. The Bank’s management and the Board have avoided addressing the issue which has caused a lot of pain in the process. While it may have contributed to the creation of regional and sectoral institutions in the age of globalization, the question remains to be answered, but now perhaps, differently. The case in point has been and continues to be Africa.

Q: Did the Bank lose any of its ability to deal with agricultural projects as a result of the 1972 reorganization? Would you say the reorganization was a gain for the Bank on all fronts?

A: Well, I wouldn't limit this question to agriculture. What had been done up to 1972 in developing sectoral capacities was quite remarkable. Whether in the field of power and
energy, or in transportation, agriculture, and other sectors, we developed a recognized level of expertise not matched by any other development finance institution. We were also beginning to work in some of the softer sectors, such as education, health and nutrition, development banking etc.

Because we had been able to assemble an exceptional staff of talent and experience, the advice the Bank had to offer was taken seriously often more so than that given by specialized UN agencies dealing in the same sectors. In fact, this was at the root of some of the tension existing between agencies such as the FAO and the Bank. FAO, for instance, began to feel threatened. Attempts to work with them - there was the establishment of the IBRD/FAO cooperative program in 1964 - only in part neutralized their concerns. I know this first hand since I participated in setting up this program and later on as deputy director had to make it work. The Bank in fact recognized the quality of the Bank staff by budgeting task in man-years; one FAO staff year = 0.75 Bank staff years. This attempt, though, of compensating quantity for quality never satisfied the Bank agricultural staff nor their managers.

Now, after 1972 these concerns began to gradually disappear. The quality of Bank technical staff did not diminish but because of its dispersal and decentralized management it no longer attracted ever better experts nor had their deployment the same concentrated punch. In some parts of the Bank there was no longer the critical collective minimum of technical expertise. Experts had to cover adjacent fields of expertise and/or needed to be
buttressed by consultants. The Bank no longer had the ambition to be a world leader in technical, sectoral field such as agriculture or power or transportation. The Bank instead began to aspire to be the world leader in development by integrating sectoral analyses into macroeconomic evaluations, by emphasizing country development strategies based on national planning. In some ways our level of sophistication in technical fields may have been beyond what was needed or wanted. While we were strong in seasoned economic planning experience and in devising country development strategies, we became ever weaker in understanding what was required in terms of enabling conditions for private initiative to respond. In truth, and in keeping with the times, we mistook development planning and strategy for sound economic policy.

It is often said that because of this shift the technical proficiency of the Bank deteriorated. I don't think that is really true in the absolute. I don't know how you measure it, but I can tell you that if you measure it in terms of shortcomings in technical design of projects you won't find it. I looked very hard for it when I did the review of the Bank's project portfolio in 1991/92. The proportion of projects suffering from technical design deficiencies was negligible. But then this might just as well have been the result of good technical expertise deployed by the borrowers themselves. The technical capacity rests on the skills and experience of the staff; the organizational structure can contribute to the effectiveness of that capacity.
The problem was perhaps the dispersal of technical staffs in less than critical minima. This problem became more pronounced as time went on and there were no longer projects directors around responsible for maintaining the technical proficiencies of staff. Fortunately, developing countries have built up their own skilled and experienced staffs. We now often draw on their expertise to support our work. The technical quality did not need to and probably did not decline as a consequence of the reorganization of 1972. Project results did, however; and that may well have resulted from the inadvertent neglect of the role of ownership and private initiative.

The 1987 reorganization is, of course, a very different matter. In '72 the content of the Bank's ambition of being a world leader in development changed. It moved from focussing on projects and sectors such as agriculture or transportation or public utilities, assuming the presence of markets, to a comprehensive concept of development relying on national planning. Program lending and later on structural adjustment lending initially reinforced this tendency. As balance of payment concerns grew, especially as a consequence of the oilshocks, trade liberalization and international competitiveness reemerged as major preoccupations. This restored the attention to markets and incentives, couched in the Bank's parlance in terms of enabling conditions. Neoclassical economics reemerged as the leading model.

Q: Now, between '72 and '76 what were the projects you were working on?
A: Well, EMENA as a region, Europe, the Middle East, and North Africa, those are three different worlds. One of the first things I was asked to do after I became Director of the EMENA Projects Department was a special assignment at the behest of McNamara. I was called into his presence in early 1973 with the only other person present being M. Shoaib, then a vice president and special advisor to McNamara. He had previously been Minister of Finance of Pakistan and also Executive Director on the Bank's Board. They explained that Saudi Arabia was rich in oil but otherwise underdeveloped. It was in need of the kind of advice and help we would normally provide in the context of our project lending.

A technical assistance program was wanted for Saudi Arabia; but since the country was rich it had to be on a reimbursable basis and without any lending. Management obviously thought that I might be the person to persuade the Saudis that the Bank had useful expertise to offer to which they could have access at cost. We would, however, employ our normal policies, practices and criteria, including those of open bidding, transparency in decision making, and the application of strictly objective decision-making criteria. This later stricture was aimed at curbing open and concealed forms of collusion and corruption.

So I was launched into an association that later spread beyond Saudi Arabia to other parts of the Middle East and lasted to this day. I went to Saudi Arabia for the first
time in the spring of 1973 to develop and agree to a technical assistance program on a
reimbursable basis helpful to the Kingdom of Saudi Arabia.

Q: This was before the first oil shock or after?

A: Before. In fact, I will never forget during this very first visit I had the bad fortune
of rupturing a disk in my lower back. I was running around in tremendous pain and
increasing paralysis in my right leg. Since this was a unique opportunity I couldn’t let that
kind of thing interfere with the sense of mission we all had at the time. And the Saudis
were most gracious. They provided me with a car rigged to make the travel around the
country somewhat more bearable.

On one occasion I was invited to a party in Riyadh. There was a professor at the
university whom I knew well. He had invited some friends for lunch and a dip in the pool
behind closed walls. His wife, a very modern young lady, had arranged a delightful lunch
and for a very relaxed atmosphere. Lots of Saudis there. They also served drinks. I had a
scotch and soda. I began a conversation with a tall, handsome but very tired young Saudi.
He had just arrived from New York where he was serving with the UN Permanent Mission
of his country. He said before he left New York he had a scotch at the bar in the Waldorf
Astoria and, he asked, what I thought he paid for it. I thought the question strange and did
not quite know what to make of it. And he said "well, I’ll tell you what I paid, I paid one
barrel of oil". And he said "do you think that can last?" I was dumbfounded, because I had
not thought about the problem in those terms.
Q: Two and a half dollars?

A: Two dollars and 35 cents for a barrel of oil and a scotch and soda in the Waldorf Astoria was two fifty. This gentleman, Prince Feisal, is today the Minister of Foreign Affairs in Saudi Arabia.

While we developed the program, and we initiated a lot of work for Saudi Arabia, the oil crisis hit at the end of '73 and the beginning of '74. Balance of payment surpluses began to mount. Saudi Arabia had to demonstrate that it could, without too much waste, put some of the growing surpluses to use for its own people. We accelerated work on the Bahrain causeway and other transportation projects. We designed a crash program for education and human resources development. Urban housing and modern concepts of its construction were introduced. We developed blueprints for infrastructure for the pilgrimages to Mecca and Medina, including at the airport in Jeddah where there is a separate staging area for pilgrims, as well as for providing water supply, sanitation and shelter for the pilgrims in Mecca.

This was a delicate matter because infidels could not get into the holy places. So closed circuit television was installed, and Pakistani consultants had to work on the inside and western consultants back-stopped on the outside. Those were a few of the things we supported in addition to the development of ports, water supplies, pipelines and telecommunication. All of this on a reimbursable basis. For a while this worked well. But then there were lots of other national interests -- I don't mean Saudi interests -- but other
countries who began to be very envious of the Bank's access in Saudi Arabia. One of the groups that was especially nervous about this was from the Stanford University working on behalf of the US Treasury; but there were other groups from Europe as well who didn't care much for what they saw us accomplishing there. In particular, we seemed to spoil the fun by insisting on open bidding for the contracts of projects we had worked on.

Q: You said Stanford?

A: Yes. The political effects of our contacts were not negligible. Through our work we were in touch with Hisham Nazir, the Minister of Planning, Sheikh Aba Alkhail, the State Minister of Finance, and Sheikh Yamani, the Oil Minister. This trilogy of native-born Saudis was increasingly replacing expatriates as the Royal Family's principal advisors and managers of national affairs. Stanford was associated with Hisham Nazir, then Minister of Planning, who later replaced the Minister of Oil, Sheikh Yamani. From the earliest days a very strong supporter of the Bank's role was, Sheikh Mohammad Aba Alkhail. Shortly after we started our cooperation he became Minister of Finance. He is still Minister of Finance today, a high degree of continuity. Aba Alkhail became a real friend of The World Bank. This relationship had become mutually beneficial in many ways.

Shortly after we had established our technical assistance program and an increasingly closer relationship with Saudi Arabia the Yom Kippur War erupted. The Suez Canal had been closed and all activities on the Canal had come to a halt. In February 1974 the shuttle diplomacy began with Kissinger going back and forth between Egypt and Israel.
McNamara also visited Cairo and Tehran at about that time. He and the Managing Director of the IMF were trying to put together a coalition of oil surplus countries that would allow the Bretton Woods institutions to play a major role in the recycling of petrodollars. In the process, he was hoping to generate a fair amount of concessional support for repairing the damage of the Yom Kippur War.

Tensions were high at that point. The Bank was one of the bridges of continuous and open communication with Saudi Arabia. And we were one of the first parties ready to help. We were intrigued to help with reopening the Suez Canal. We thought finance was still available from an earlier Japanese commitment for the enlargement of the Canal. As it turned out, the reopening of the Canal became a complex problem because the Japanese would not permit their financing to be used for reconstruction and, for the minor matter that the canal banks were full of land mines and live ammunition. The removal of explosives wasn't a job for civil contractors or bankers such as us. This task called for specialists. After some negotiations with the U.S. Corps of Engineers, they were the first ones to go in and help clean up the banks before we could begin the task of reopening the Suez Canal. When we finally did we not only reopened, but enlarged the Canal, revamped the Suez Canal Authority, established a sound basis for its fees and charges and turned it into a financially rewarding and independent authority.

You may recall that when the Canal was nationalized it had become a state-owned enterprise with limited autonomy. While it was to become a major revenue source for the
government in the process it had declined physically and financially. We tried to change that by enabling the authority to charge fees commensurate with the services rendered, and to do it in a denomination a bit more reliable than the US dollar shortly after the Smithsonian Agreement. The files probably still contain a loan agreement or a side letter stipulating that henceforth the Suez Canal Authority would denominate its bills in special drawing rights. I think it still does to this day. So that was another exciting experience.

Shortly thereafter something else happened which was more foreboding; that was when the Bank was thrown out of Iran.

Q: Were you charged with dealing with this problem?

A: Well, accidentally yes. At that point - this must have been in 1975 - I was acting for Munir Benjenk, the Regional Vice President. We had done an agricultural sector study of Iran. In the process we also had agreed on a technical assistance program somewhat modelled after that for Saudi Arabia. It had been developed later, and in the case of Iran McNamara had insisted that we should limit ourselves essentially to what today one would call human resources development activities -- education, health, water supply, agriculture, urban development and things of that nature.

The Shah wanted us to do traditional project work in the more classical sectors such as infrastructure development, public utilities, and, most importantly, to become a catalyst for the development of nuclear energy in Iran. But, of course, when one looked at the energy picture in Iran, the cheapest alternative was the gathering and development of
natural gas. At the time, it was still being flared in large quantities. Obviously, that remained a large and continuous source of energy for the country. While this was the low-cost option, readily implementable, the Shah insisted that the Bank should support nuclear energy development. Our refusal to do so clearly put us on a collision course.

So we had done this agricultural sector study. It concluded amongst others that the organizational and administrative arrangements for the sector were in need of major change. The Prime Minister presented the Bank's draft report to the Shah who took this as the opportunity to tell the Bank to go to hell. He was no longer interested in active cooperation with the Bank. This happened shortly after his Minister of Planning had been in Washington, had lunch with McNamara -- I was present -- and there had been full agreement on the substance of future technical cooperation.

From one day to the next this was out: we received a telegram from the Prime Minister asking us to withdraw our resident task force -- which at that time was probably 18 professionals or so -- within a month. While this, of course, was impossible, we certainly understood that we were no longer welcome. We withdrew by the end of September of '75, long before the monarchy fell. Ever since, the relationship with Iran has been cool.

After our withdrawal, Tehran decided to prepay a number of its loans to us. I remember to this day, a good friend of ours, the then president of the Development Bank of Iran, actually physically brought checks to the Bank to prepay current loans. Not all loans,
however, were prepaid because when, in 1978 after the Shah had been deposed and the freeing of the US hostages had failed, President Carter froze all of Iran’s overseas assets. We also had some anxious moments since it seemed Iran could no longer service its debt because of this freezing of the assets. At that time I was already working on Eastern Africa. A solution was found, the details of which I don’t recall. But Iran never defaulted.

Q: Didn’t we at that time also have borrowings from Iran and owed them money to service our debt?

A: No, probably not enough. Our borrowing from Iran and Saudi Arabia died down very rapidly; it turned out that we could readily borrow petro dollar surpluses in international markets.

Q: But by ’78 your position had changed. You had become the Vice President for East Africa?

A: In late summer 1975, Mr. Benjenk who was then Regional Vice President for Europe, Middle East and North Africa left on a sabbatical and I was made the Acting Vice President for Europe, Middle East and North Africa. I remained in that position until the fall of 1976. Thereafter, I was promoted to regional vice president for Eastern Africa.

Q: So the issues that you were dealing with in Eastern Africa were quite different from what you had been dealing with in the Middle East, I presume.

A: Yes and no. Eastern Africa as it was then defined geographically, included the Sudan and Somalia. It had some of the attributes familiar in the Middle East and North
Africa. Also, economically, there were similarities such as cultivation in desert-like conditions and the prominence of irrigation in the Sudan, or the high population growth, for example. On the other hand, many Eastern African countries were very different.

Africa is clearly not homogenous. The colonial experience is very different in subsaharan Africa. There are very different levels of social and economic development and different natural resource endowment; equally, differentiated development strategies were called for.

When I got to Eastern Africa it was already beset by problems not present right after independence. The decline was setting in. Societies were dominated by new emerging and rent-seeking African elites. They took over from the withdrawing metropolitan cadres as well as from mainly south-Asian ethnic groups, now under persecution, who had been the main source of entrepreneurial talent. And they demanded the same kind of perks and privileges without accepting the same risks and responsibilities.

The role model was the colonial officer; the African black graduates from western schools of higher learning - inspired by socialist ideology - simply wanted to replace the colonial master. The motivation often appeared to be that of a kept servant. Consequently, they preferred the state enterprise route to enrich themselves, including white helpers in the form of technical assistance now answerable to them.

African economies were not really fit to sustain this kind of largesse combined with ever increasing inefficiency. And here many saw the role of development aid as a sort of compensation. The worst part, however, was that this also opened the way for corruption
including that based on external assistance. Members of the elite, including often those at cabinet level, would build palatial residences to rent them to experts from abroad at exorbitant costs, all paid for from foreign aid. This kind of behavior provided the role model for the younger generations within those countries. Nobody who was able to write or read saw a future in private business or in farming if that meant work, risks, and responsibility. Everybody wanted to be in government service.

Government expanded by giving political cadres and members of the military similar status and privileges. Public services became bloated. Since public servants couldn't be paid enough to support extravagant lifestyles, the government, in Kenya, for example, not only allowed but encouraged civil servants to take second jobs. So that institutionalized conflicts of interest, collusion, corruption, all of which arose right in the transition from colonial existence to nationhood. The newly emerging states in Africa neither built on the traditional values pre-dating colonialism, nor on the positive values of discipline and integrity that colonial models might have left behind.

Now, there were some very attractive exceptions in the governments of the time. I remember very vividly, for instance, the long, intense, and I believe, productive association I had with Mwai Kibaki, a Kikuyu from Kenya. An accomplished economist and able administrator, he rose to become Minister of Finance and Vice President of Kenya at one stage. He never quite made it in political life. Even though he also was a tribal leader he never could buck the old boy networks of the political thugs.
It was heart wrenching to see such well motivated and attractive representatives of the younger generation, aspiring to a nobler mission, being dragged into the quagmire that emerged all over.

Of course, there were worse cases. Kinshasa, that means Zaire, also belonged to the Eastern Africa Region. I'll never forget my encounters with Mobutu, absolutely devastating. On one occasion we had uncovered a major diversion of financial resources from the Gecamines, a Katanga mining company, into his private coffers. This large, publicly owned mining company was a borrower of ours. The Bank had a direct interest in the financial integrity of the company even more so as it was also the leader of an international financial consortium supporting its rehabilitation. I went to Kinshasa with Andre Gue, then one of my country directors, to confront Mobutu on this matter.

Upon arrival we were housed in the village constructed for an annual meeting of the Organization of African Unity. Wherever the OAU had annual meetings they build an "African" village; and each of the country delegations got a separate villa for the duration of the conference. As an honor, so we thought, we were housed in one of those villas. We had hardly unpacked when the whole place was surrounded by fierce-looking soldiers in battle dress.

We were kept incommunicado for several days. Finally our Resident Representative was allowed to visit. We threatened that we would communicate the essence of our information on the financial abuses to the members of the consultative
group for Zaire if we were not able to see Mobutu in person. We didn't want to share the information with his officials because one would not know how it would be used. We prepared a brief, and instructed our Resident Representative to deliver a copy to each and every ambassador of each member country of the consultative group if we were still held in the villa by a given date line.

The deadline expired and the memo was distributed. An hour later we were invited into the presence of Mobutu. He gave us a long spiel about not being able to see us because it was the first anniversary of his wife's death and he had been in mourning. We hadn't come to offer our condolences -- we had done that a year earlier -- but we had some important business. We confronted him with the evidence of his misdeeds. He told us something to this effect: “You people can't be serious. You don't know how to govern one of these countries. I need this money; I absolutely need this money. I've got to build a road here. I've got to give a helicopter to that fellow there, all from my personal purse.”

He went on to demonstrate the need for bribes as a typical instrument of African governance. We listened and after he finished we told him that he had until -- this was after the annual meeting of 1978 -- the end of the year to restore the money to the company. It was restored and the auditors could sign off on the financial statement of the company. While this was obviously a dumb practice, hardly to be encountered anywhere else in the world, I was later warned by a government friendly with Mobutu to be a bit
more 'understanding' when dealing with such unprepared and inexperienced administrations. Quite a testimony to international cooperation!

Q: In these years wasn't the question raised even by some Africans themselves as to why African development seemed to be so difficult and so slow? Wasn't that one of the issues that you also had to deal with in those years?

A: Yes. The basic dilemma was that Africa had been polluted by a Fabian kind of development philosophy. Human socialism - also preached by young missionaries of western technical assistance - of the African kind. And there were very attractive African proponents of that school of thought: Julius Nyerere of Tanzania and Kenneth Kaunda of Zambia, to mention two I knew personally well. There were others in the recent history of Africa such as Kwame Nkrumah, perhaps ideologically and intellectually even more challenging.

Their approach to development was characterized by a combination of basic Christian beliefs and utopian socialist concepts which they had absorbed in missionary schools and as students abroad. Their higher education abroad in the immediate post-World War II period - often in Great Britain or France - exposed them to socialist teaching and the welfare state they observed. They became part of the international socialist network and strong adherents of its preachings. Nyerere was a particularly attractive and articulate proponent of this Fabian philosophy. He believed that one could create a modern African
man. And he was convinced that it would have to be done by coercion, not by incentive, by control not by motivation.

He was not thinking in terms of the empowerment of his people; indeed he found that notion subversive. He was thinking in terms of education as a means to support collective goals, not as investments in individual accomplishments. His thinking was a mixture of African arrogance based on the conviction that Africans as victims of colonialism deserved compensation in terms of a moral duty of the white man that would keep them healthy and happy without the need to make them more productive. He once asked me the question why an African loading bananas on board a ship should have to work a full year to buy a bicycle while the white laborer unloading the ship needed to work only six months to buy a car. The notion of productivity resulting from the combination of labor and capital was for him irrelevant. His was an Utopian kind of philosophy.

In other countries you would find similarly utopian approaches. In the Sudan you found a much more pro-state socialist, Russian-type philosophy. In Somalia, of course, you had Siad Barre who came with a very strong socialist emphasis initially. And so on, throughout Africa you found a lot of manifestation of this. The exceptions were Malawi and Kenya and, well, I don't know where you would put Zaire.

Q: Botswana?
A: Botswana was very special. But by and large Rwanda Burundi, all of these countries were intrigued very much by the socialist Fabian dream transplanted into African
It's interesting to note that the independence period occurred very much while there were strong ties between these emerging nations and their leaders and the socialist movements in the west. And so these governments and their leaders were not inspired by the communists and marxists in the East in the first place.

I think there was a general misreading of the ideological position of the African countries by the American-led West. At the outset, none of them was in the true sense a client state of the Soviet Union. Generally, there was a strong socialist influence from the West. There may have been the thought that there was an ideological competition with the Soviet Union to be won by generous foreign assistance. There were some strong convictions based on the socialist movement in the U.K. and in Western Europe. And, of course, there were the increasingly dangerous powerplays of the cold war.

Q: What was the Bank's response to all this?

A: This is the other part of what we shouldn't forget. The colonial powers had begun institution building and set up all sorts of institutions, marketing boards, port authorities, postal authorities. Also many commercial activities had been organized by colonial governments as state enterprises. One shouldn't get the impression that building up the overwhelming role of the state occurred after independence. No, in many instances they took over state enterprises; in others they created them on the basis of properties orphaned through ethnic persecution.
And while state enterprises under colonial rules had worked, when the colonial staffs withdrew they fell into the hands of these newly emerging elites who brought tribal and family interests to their role. Very quickly managements were dominated by particular families. Corruption and collusion ensued, and nepotism became important. These became more devastating than the petty corruption endemic to Africa.

Trying to rationalize state enterprises under these circumstances was a tiresome and not very promising approach. The Bank's attempts to contain nepotism were highly criticized as external interference and its concern regarding state enterprise was opposed as ideologically inspired. Add to that the fact that the governments were becoming less secure themselves as time went on. I remember defense budgets being very low initially. Then towards the end of the 70s, defense budgets were mounting, almost exploding. Whether it was Kenya or Tanzania, the picture was the same.

Countries weren't spending on defense to protect against neighbors; they were spending on defense to protect against their own people. Tanzania now had three governments -- all with their perks and privileges: the government, the party, and the military. Others faced similar experiences. Budgets and balance of payments suffered. Whatever little economic activity there was declined, black markets began to spring up, exchange rates deteriorated, inflation was beginning to set in, suppressed or even open. Obviously, this was an unsustainable situation that could not be expected to last much longer.
Our initial approach was to say, let's try to rationalize the system and let's try to restructure and rehabilitate the state enterprises. There were a few cases where it had seemed to work. The Kenya Tea Development Authority, which was a remarkable example of a well managed export oriented company that could profitably produce and market a high quality product. The power company in Tanzania was a model of efficiency, although later on it also deteriorated. So, one could find islands of proficiency and efficiency which gave hope that not all was lost.

What one couldn't find were competent African entrepreneurs, African capital accumulation ready and willing to move into available market niches and a private sector inclination to get involved in production; trade yes - to some extent, production hardly. Because of its overwhelming role and presence government had large budgetary needs to sustain its ever growing operations. Subsidization in various forms became ever more addictive as a result of government manipulation of the economy.

The whole food policy became urban-oriented. As the subsidization of food for urban consumers could not be budgetarily sustained, governments began to suppress procurement prices for agriculture. This starved farmers to the point where, for instance, Tanzanian farmers smuggled agricultural produce to Kenya.

Mainly because of the politically motivated and ill-advised depression of domestic terms of trade between agriculture and urban economic activity, a complete exhaustion of
the economy from within occurred. Whatever we attempted in agriculture no longer succeeded because in real terms prices had collapsed.

This was not without intention. I remember the then permanent secretary in the Tanzanian Ministry of Finance one day appearing in my office in Washington and announcing a new food emergency in Tanzania. In the course of our discussion he related that only in crisis circumstances were they, the Tanzanians, still able to secure US food assistance. Why should they worry about agriculture when food aid was still to be had? Indeed, as long as developed countries were willing to export there agricultural surplus problem at dumping prices why should developing countries invest in agriculture?

Where one initially hoped that things would hold, they inevitably fell apart. Without an adequate policy framework one project after the other collapsed. The failures had little to do with technical project design defects; they were a consequence of bad economic policies in part inspired by an international trade regime at odds with the proclaimed objectives of development assistance. At that time, the phrase emerged: the best project can not succeed in a bad policy environment! The vexing and dual question arose in my mind whether it made sense to pour money into Africa if indeed the Africans didn't seem to care about their own development, but only about maximizing aid flows; nor did the sponsors of development assistance seem to care except about their exports?

Where would one finally find the will and the vision which would halt the decline?
We saw the crisis coming. Then the Africans came up in 1980 with the so-called ‘Lagos Plan of Action’. It was another grandiose strategy to transform Africa economically by the year 2000. In terms of resource requirements, policy reforms and implementation capacities this was totally beyond anything one could reasonably expect Africa to mobilize. I actually discussed that plan with a number of policy makers in Africa; though mainly with Ministers of Finance, in Kenya, in Tanzania and elsewhere. I wanted to see whether they, individually, really believed in this plan. Many were skeptical and worried that they might mislead themselves. Of course, the views held in Planning Ministeries were often quite contrary.

I told several of our African Governors that we would not be able to endorse the plan. By then we had established quite a number of consultative groups because by now we needed to pool scarce resources available to Africa for greater impact. I forget now how many we had, but we must have had at least 12 consultative groups in eastern and southern Africa alone. Our views were shared with the CGs in the presence of African delegations to these conferences. In other words our adverse reactions to the Lagos Plan were bound to have a fairly wide audience.

Eventually, there came an invitation from the African Governors, mainly Ministers of Finance, at the annual meeting in ’79 in Belgrade for the Bank to undertake a study on the reasons for the decline and the prospects of Africa. The study, after considerable disagreement within the Bank about its conduct, was eventually headed by Elliot Berg; its
product, accordingly, became known as the "Berg-report". There is a history to the Berg-report most people are unaware of.

The Minister of Finance of Tanzania, Edward Mtei, was chairman of the African caucus of World Bank governors at the time of the '79 General Annual Meeting in Belgrade. In his address to the African caucus the Minister invited McNamara to undertake the study. The normal caucus process was that the President of the Bank would take note of such suggestions at the time of the caucus, and would formally and substantially respond by the end of the year. In this case it took a lot longer to agree on whether to accept this invitation. Within the Bank there arose a major difference of view as to the advisability of undertaking this study.

At the heart of this dispute were, my colleague heading the West Africa Region, Roger Chaufournier, and I. I wanted the study, he was against it. I suspect on the advice of Ernie Stern, who had since become Senior Vicepresident Operations, McNamara finally decided that we had to do it.

I had argued that we needed to do it because the crisis was deepening and collapse inevitable if the Africans embarked on the Plan of Lagos; Chaufournier warned that it would inevitably lead to major controversy and confrontation perhaps even beyond subsaharan Africa. Finally, after a month of procrastination, McNamara decided that he didn't like it but that we had no good reason to decline the invitation. We all clearly understood that we were about to embark on a rough ride.
We wrote terms of reference for a broad-based and inclusive international inquiry. Ravi Gulhati and Louis de Azcarate, respectively Chief Economists for Eastern and Western Africa, developed the first drafts. We saw this as a cooperative study involving African and European scholars, especially those who knew the colonial period well. Early on, we looked for a French expert to head the effort under the leadership of the Bank. Actually, Pierre Mousa was our preferred candidate. We aimed at an internationally recognizable effort. While we were in the process of bringing people together for this exercise, I was suddenly instructed by Ernie Stern on behalf of McNamara to reverse the approach.

I was told that the study was to be carried out by Elliott Berg supported by Bank staff. He was put in charge by either McNamara or Stern - no explanation given! We were startled. Eventually there seemed to be an acceptable reason as to why there had been this reversal. Apparently, it had to do with McNamara's personal timetable; his decision to resign from the Bank. He didn't want the study to carry on and become an early burden to his successor. Also, Africans close to him wanted this to be completed by the time he left the Bank; they wanted his name to be attached to the outcome.

That is why the exercise was cut short and during the phase of the field work heavily influenced by Elliot Berg. The international dialogue we had hoped for never unfolded during the study. Its unfriendly reception was thus preprogrammed. It was perceived and criticized as a one-man kind of product made to order.
Elliott Berg and his team produced a draft volume of 500-600 pages; pretty sizeable and hard to digest. In a hurry, we assembled a team of Bank people who knew Africa well, to review and revise the report and turn it into an actionable policy program on subsaharan Africa. This effort was actually led by Jim Hendry from the Eastern Africa Region and Ralph Güsten from the West Africa Region; but experienced Bank staff from all sectors were involved and given opportunities to comment. The Berg report actually became a Bank report in the process.

This, then is the famous Program of Action for Africa. The report called for a major change in the direction of economic policies pursued by the African governments. It called for more private sector and far less government, for market-based approaches, fiscal stabilization, trade liberalization, reduced subsidies, emphasis on agriculture, renewed emphasis on exports, and so on and so forth. In sum, it made the case for structural adjustment that had become inevitable for many African Governments. But it also argued for a substantial increase in concessional funding for those African Countries willing to make the effort.

But the Bank also addressed the adverse international trade environment restricting agricultural development in developing countries. Already the 1982 World Development Report offered severe criticism regarding agricultural protection policies of developed countries, especially the EEC. I recall Ernie Stern and myself travelling to Brussels to meet with the Commission to present our findings before the report was published. The
reception was icy and, ever since, relations have remained distant. Nevertheless, the Bank again in its World Development Report of 1986 renewed its attack on the international trade regime holding back agriculture in developing countries. Still the problem of incoherence of trade and development policies continues to exist. What is needed is a sort of structural adjustment policy at global level.

But back to the so-called Berg report. The Program of Action was presented at a meeting in Dakar, Senegal, of African Planning and Finance Ministers. David Knox, who by then had replaced Roger Chaufournier as Vicepresident of the West Africa Region, and I were present. The African governments, without exception, rejected the recommendations of the report and roundly criticized the Bank. The report drew much attention and provoked extensive discussions, both among the Africans and among the donor community.

Nevertheless, it set in motion the international process of rethinking the development paradigm - perhaps not only - for subsaharan Africa. It was gradually beginning to dawn on people that while the medicine was difficult to swallow, it was by now the only remedy left. It should have been pursued with far more insistence - and in a number of instances with much less money - than it actually was. I strongly believe that the Bank, persuaded by Kim Jaycox, was wrong to encourage a huge increase in concessional flows to Africa.
That increased aid dependency to unconscionable levels and allowed African Governments time and again to avoid the hard decisions while, meanwhile, increase consumption levels backed by aid flows. Just imagine, in a number of countries aid flows reached more than 15% of GDP! It began to account for more than the total rate of investment. But it also gave European Governments the excuse to continue existing trade practices without facing pressure from Africa. By now, there has emerged a sort of international collusion of vested interests between African elites and European agricultural lobbies.

On a very different aspect of my African experience I should just like to add one more matter. At the annual meeting of 1977, we started to get involved in the dismantling of the East African Community.

Q: That was one of the next questions I wanted to ask.

A: There had been a growing estrangement between Kenya and Tanzania and Uganda. The tension with Uganda was very much related to the behavior of its president, Idi Amin. In fact, the Tanzanians refused to have any further dealings with Uganda and closed their borders. While it was also a convenient excuse for Tanzania to close the border with Kenya for reasons already mentioned, the dispute with Kenya was actually over the functioning of the Community. It was caused by the growing economic divergence
between Kenya and Tanzania, and in particular by disputes over the budgets of common services.

The East African Community had been established back in the 60s when these countries became independent. It was an ambitious design, essentially based on the continuity of common services for the East African territories established by the colonial powers. I believe it was largely that overdesign which ultimately led to the collapse of an otherwise laudable effort at regional cooperation.

By the time I became involved, the borders between the three countries were already closed. There was no further discussion within the community organizations established to operate commercial enterprises and common services. Its last Secretary General, E.I. Mtei, the Minister of Finance of Tanzania at the time of the Belgrade Annual Meetings, had returned to Dar es Salam. There had been a common port authority that controlled Tanzanian and Kenyan ports, for example, there had been a common railway, a common airline.

There had been all of these common establishments which were operating no longer as common, but now as national facilities within the borders of the respective countries. Yet, the legal and financial structure of these entities still existed, they had incurred debt, in particular vis-a-vis the World Bank, they still had business to conduct and assets and liabilities to administer. The administration of these entities was grinding to a complete halt when the then Minister of Finance of Kenya, Mwei Kibaki, came to me and
said: “Look, I think The World Bank is the only institution that can help. The Community
is no longer going to work, we have to dismantle it, but let’s be intelligent about it. While
we need to take it apart, let’s take it apart in a fashion so that we can rebuild on its
foundation if and when the time is right.”

I went to McNamara with a proposal for us to mediate the dispute and develop a
plan for dismantling the East African Community. McNamara was very reluctant to get
involved. Before I had come to Eastern Africa as Regional Vicepresident, on one or two
occasions, some of the countries had refused to pay the debt service on World Bank loans
incurred by the East African Community, even though these loans were all secured by joint
and several guarantees of the partner states. The then secretary of the Bank, a former
deputy governor of the Reserve Bank in India, Purviz Damry, had been sent on special
missions by McNamara to ensure that regular debt payments would be made. He
developed the so-called Damry formula which allocated debt service burdens to partner
states, roughly in proportion to the size of their economies, irrespective of the location of
assets created by the loans.

This solution was not meant to be permanent, nor did it allow for full debt service
when one of the members went into arrears. In that case recourse to the joint guarantees
was the only answer, which, if invoked, would prevent any further lending to any of the
partner states until all arrears were eliminated. That was no longer a hypothetical question
since Tanzania had begun to refuse payment on its Community debt.
McNamara felt affronted by the behavior of the three governments. I believe he may have blamed Kenya more than anybody else for the prevailing climate of hostility and mistrust. But he also felt disappointed that his very good friend Nyerere could refuse to honor his responsibilities vis-a-vis the Bank. Nyerere was very stubborn too. When Tanzania engaged in war with Uganda, Nyerere came to expect that the international community owed him something because he had gotten rid of Idi Amin. In fact he at one stage asked us to present that case to the Consultative Group.

At the Bank's annual meeting in '77, we managed to get the Finance Ministers of Kenya, Tanzania and Uganda into the same room; they jointly invited the Bank to mediate the dissolution of the East African Community. As we were a party at interest we accepted to administer the mediation but not to insert ourselves in the substance of it. We presented draft terms of reference for the mediation to the partner states as well as a short list of candidates for the Mediator. After several rounds of consultation and finally agreement we appointed as mediator, Victor Umbricht, a Swiss national, former staff member of the Bank and consummate diplomat on behalf of the partner states. He spent the next five years, '78 until '83, on the mediation of the dispute and the dismantling of the community. It was a long and arduous process requiring great patience, and persistence on the part of the mediator. It eventually led to a comprehensive settlement. This allowed countries to open their borders and to restore relations. I think that events could have easily taken
another turn: this was actually a peace saving effort - there could have been bloody conflicts. Some of the common institutions, but very few, of the important ones survived.

Today, there is in place a situation where some form of regional economic cooperation can be restored without the unresolved past quarrels being a stumbling block. The untiring efforts of Victor Umbricht deserve special mention! He was tremendous in dealing with these governments, in terms of hanging in there, creating situations where they were talking to each other, and finding solutions that finally all of them found fair and equitable.

Q: I want to move on to your next assignment, especially to some of your responsibilities in personnel and administration.

A: Well, there is one African issue we haven't spoken about at all. This sort of straddles all of these African experiences; it has to do with the '73 Annual Meeting speech of McNamara in Nairobi. There, he announced a new Bank philosophy for Africa's development. He talked about rural development with perhaps two types of countries in mind: One, countries like India, where agricultural development seen as a commercial activity might retain large numbers of people in the countryside; and, second, African countries, where rural development, centrally administered and controlled, comprehensive, integrated rural development was deemed essential to any form of progress.

Many of us opposed that model; I was amongst those who did not think it could succeed, neither in Africa nor elsewhere. McNamara certainly didn't have the majority of
the people knowledgeable about both agriculture and Africa behind him at the time. It wasn't so much that we held the notion that agricultural technology is not divisible, as some tried to allege; it clearly is divisible. Indeed, that was not even the real issue since communal - even coercive - farming required actually less divisibility. But rural development could not possibly succeed in an adverse policy environment.

No agricultural development can succeed if price relationships are not right, if the supply and procurement systems are rigidly administered and bureaucratic, if there are no new inputs to make a difference to the production function. These factors will influence the behavior of individual farmers. Integrated rural development, that means communal farming, could not possibly, and, in the event, did not substitute for their absence.

The worst aspect of the rural development design was that it was to be centrally integrated and socially comprehensive. That really meant that these hamlets for development had to have a new administration which was to co-exist next to the old. From the beginning one could expect that this approach was to be alien to the existing administrative structures and would be attacked by them, weaken them, or both. Much of that happened. Not so much in the Indian context where the government had long and painful experience with community development; but very much in the African context.

I don't think we can today find a single rural development project in Africa that has survived let alone really succeeded. It was a major shortcoming of the Bank that it accepted
something so untested, unproved, and yet urged its application on a large scale; leaving in its wake nothing but debt.

I wasn't in Africa when it started because in '73 I was still working in EMENA, Europe, Middle East and North Africa. When at the end of '76 I shifted to Africa this became one of my major concerns. We tried to repair ongoing schemes, but they were unrepairable. Then we began to contain the damage by moving to simpler project designs, reducing in the process exposure in agriculture. The reckless implementation of the Nairobi speech, even its concept, remains to be questioned. The sad experience of the Bank in Africa was much aggravated by this imposition of a rural development design that was neither tested nor appropriate to the situation.

I just want to be sure we don't leave out this view of McNamara's '73 Nairobi speech. Many of my former colleagues in the Bank will tell you that this was one of the high points in the institution's history; in contrast, I consider it one of the least proud moments - and not only in retrospect. The intent of helping the poor may have been laudable; the practice was wasteful of resources; it benefited essentially administrators, bureaucrats and politicians.

Q: After your assignment in East Africa, you then moved back in 1984 to the Middle East and Europe. What were you responsibilities in this new position, and how did that shift come about?
A: Well, by 1983 I was exhausted and had come to the conclusion that whatever
collection I might be able to make to Africa, I had made. The Program of Action was
now taking the form of structural adjustment programs; they too should in time become
highly controversial. I felt that I was running out of ideas. I still had to see the dismantling
of the East African Community through, but I thought it was time somebody else tried his
hand on the African charge. I told the President - by then Tom Clausen - that I thought the
time had come for me to make a change. He agreed.

There ensued a story that not very many people know. It was agreed that I would
return to EMENA. Mr. Chaufournier, who had meanwhile headed EMENA, was to retire.
All of us were set for the announcement to be made. When I was called into Clausen's
office, he told me that I was not going to go to EMENA. Instead I was to be his vice
president of finance. I was totally taken aback. Clausen told me that Qureshi was going to
return to IFC and that I was to take over the finance portfolio. He was also planning to put
external affairs and the replenishment of IDA together under Sir William Ryrie whom he
was about to recruit from the U.K. I had earlier on mentioned to Clausen that if he wanted
a successor to the retiring Munir Benjenk as vice president of external affairs, he should
think in terms of Sir William Ryrie. He now was going to hire him and make him also
responsible for the replenishment of IDA.

I straggled manfully to get out of this assignment for which I felt neither qualified
nor enthusiastic about. But I knew the president well and he made it difficult for me to
decline. As it turned out I had an unexpected ally: none other than Donald Regan, the U.S. Secretary of the Treasury. Regan went public and declared that the US Administration was not accepting Moeen Qureshi as the head of IFC. The statements of the new US Administration, especially from the Secretary of the Treasury, were so blunt as to leave Tom Clausen little choice but to back down. He reversed himself and left Qureshi in charge of Finance. Sir William Ryrie in turn was made Executive Vicepresident of IFC. That saved me from going to finance; I returned to Europe, Middle East and North Africa, as earlier planned, and personally much preferred.

Q: Had the situation changed from your prior experience there?

A: Yes and no. Obviously the one thing that had changed dramatically was the relationship with Romania. The whole of Southeastern Europe, the Balkans, had become restless. Romania had earlier on joined The World Bank in 1974. I was involved in bringing it into membership, acting at the time for Munir Benjenk. At that time Chaucescu was firmly in power. In the meantime he had decided that he was not going to have any further dealings with the Bank even at the risk of negative net transfers to Romania at a time when it was extremely short of foreign exchange. In fact Romania began to service its debt most irregularly so that we were forced to stop disbursements on on-going projects. Chaucescu stopped short of leaving the Bank but relations with Romania went totally dormant at about 1985/86.
Also, in Yugoslavia, centrifugal forces in the federation were much more apparent in '84. The cohesion that the personality of Tito had brought was about to collapse. Already in '84, as I got back, it was very apparent that the situation had become increasingly tenuous. Unless something fairly drastic happened, Yugoslavia, as we knew it, was likely to disintegrate. The Bank tried very hard. My predecessor, Chaufournier, had already seen that and had begun the process of structural adjustment, trying to establish a macro-economic policy framework for the Federation that would satisfy both the poor south and the rich north. Economic tensions between them were much more prominent in those days than problems of ethnic and religious diversity. Ethnic tensions and the shadows of historic animosities were in a way camouflaged by the sharp economic contrast between the poor south and the rich north and the hectic efforts to manipulate the Yugoslav way to socialism.

The third and striking development was breaking in Hungary. Bretton Woods membership for Hungary had just been negotiated when I returned to EMENA. Hungary was the first of the new members of the Bank from Central and Eastern Europe. This was very intriguing, mind you, because it happened years before Gorbachev came to power in the Soviet Union and introduced "Glasnost" and "Perestroica". The first thing I did after I returned was to go to Hungary.

I was introduced to a number of prominent Hungarian politicians who were, without exception, reform-inclined. Without any compunction all were telling me that the
communist days were numbered, even though some of them were known to be orthodox communists in the Hungarian system. There ensued a close relationship with the communist government, especially with Deputy Prime Minister Marjiai, Chairman of the National Planning Commission, Pulai, and Janos Fekete, the First Deputy Governor of the National Bank. This continued after Nemeth succeeded to become Prime Minister and form the Communist Reform Government. This may serve to demonstrate how a reform-minded communist government could be expected to participate in the design of the transition to a non-communist economic regime in Hungary.

This was dramatic stuff. It also held its little ironies: every time we visited and had policy discussions with the Government of Hungary, shortly after our departure a mission would arrive from Moscow; our Hungarian counterparts would be thoroughly questioned regarding the content of our discussions and a record would be made. Apparently, at times, they would be admonished not to share information with us in violation of their code of conduct as members of COMECON.

Of course, the Hungarians were obligated under the Articles of Agreement of membership with the Bretton Woods institutions to release this information; an apparent conflict to be managed. When Gorbachev arrived on the scene the interest of Moscow became even more intense. For him Hungary apparently was another window to the West, to observe how these institutions dealt with new, and at that, socialist members. If and
when the Soviet Union were to think in terms of membership in the Bretton Woods institutions, this could provide useful guidance, as, in the event, it did.

The whole Central and Eastern European theater was in ferment. By 1985 we had preliminary discussions with Poland. The discussions with the Poles about membership probably lasted as much as 18 months, most of it very quiet, very informal, very subdued, tolerated by the powers in Moscow but kept under very close surveillance. There were especially two people, the head of the National Bank of Poland, Professor Backa, and his deputy, Mr. Olochowscy, who were frequent visitors in Washington. Olochowscy was later to become Minister of Foreign Affairs of Poland. We had continuous discussions with them until Poland became a member I think in the summer of '86. We prepared a first blueprint for economic reform.

When Jaruzelski held his first famous roundtable the whole thing collapsed. Actually, it didn't collapse over the blueprint for economic reform, it essentially collapsed around the issue of political pluralism and participation. Jaruzelski wasn't prepared to offer enough space for the effective participation of Solidarity; to have it formally recognized and participate in government. The reforms were set back. The reform process started in earnest again in '87, now energetically led by the young Minister of Finance, Balcerowicz. The rest is history.

It was an awesome experience to witness close-up these historic developments. Gorbachev apparently was in close contact with Jaruzelski throughout this process. We
learned later on when Conable and I visited Jaruzelski in early 1990, he was still President, that the evening before our meeting Gorbachev had called. He had asked Jaruzelski to pose a number of questions to Conable of particular interest to him. Jaruzelski advised Conable that he would convey the answers to Gorbachev. This was still some time off before the Soviet Union would ask for membership in the Bretton Woods Institutions. I mention this here to illustrate the close interaction between Poland and the Soviet Union that continued throughout the process of Poland becoming a member of the Bank.

Meanwhile, a few other theaters had warmed up and began absorbing my attention. The second oil price shock in '79 and the ensuing debt crisis of '82 had changed the economic prospects dramatically, also, for a number of countries in the Middle East and North Africa. Turkey had been in crisis since '79; in fact, Turkey was only being kept solvent by an emergency rescue operation sponsored by the German government with the help of the Turkey Consortium. There had been surprisingly little contribution from The World Bank.

There also continued a long-standing dispute between the Turks and the International Monetary Fund. The Turks refused to accept any kind of support or advice from the International Monetary Fund with which they have always had a very shaky relationship. But the Turks were now beginning to think big in terms of the Bank. My predecessor, Chaufournier, had initiated discussions of structural adjustment which I found ongoing by the time I returned to EMENA. Özal, a former staff member of the Bank, had
become first Planning Minister, and was now Prime Minister. His reform Program, backed by the military, turned out to be a solid basis for Bank support.

By the end of the 80s, Turkey was restored to solvency; it was managing its debt effectively, regained access to international capital markets, and in the process of becoming an open economy. When I left EMENA in 1976, Turkey was still a closed economy; when I got back to EMENA in 1984 it was choking from excessive external debt, debilitating budget deficits and inflationary pressures. By 1990 Turkey had become a major player in the international economy - a dramatic development over a relatively short period of time; a 'boom and bust' performance typical of Turkey.

Something was also happening in Morocco, a country often misperceived. The participation of the state in economic activities was overwhelming and yet Morocco was never seen to be actually a centrally-administered economy. The royal family, and the state as an indistinguishable extension of the crown, made the state the preeminent proprietor in the Moroccan economy. That began to change as structural adjustment supported by the Bank took hold.

Morocco managed to get on top of its debt and reestablish its creditworthiness, liberated its trade regime, privatized public enterprises, and created an enabling environment attractive for private investments, both domestic and foreign. Today Morocco is a country with a convertible currency, integrating in the international economy, and with a dramatic development of non-traditional exports, especially light manufacturing, textiles,
and the like. As elsewhere, these encouraging beginnings should later be threatened by the eruption of the Gulf crisis, but, again, with little known interventions on the part of the Bank, major disruptive reversals were avoided.

As in Turkey and Morocco, also in Tunisia we were very actively involved in the aftermath of the oil shocks and the debt crisis. To engage in Egypt, which was experiencing equally severe circumstances and very sluggish economic growth, turned out to be much more difficult. The socialist heritage of the Nasser era had left the country with unpayable social bills. Rapid population growth added to rising internal pressures. Meanwhile the economy was kept by the USA and its special interests in the Near East, and by the Arab oil surplus countries. The skillful manipulation of these parties by the Egyptian Government was of much greater benefit than the pursuit of risky reforms, especially those dependent on Bank support.

But, finally, the Egyptian government also began to show some interest in long overdue economic reforms. Not full, not comprehensive, not very visible reforms because the political leadership remained constantly frightened of the social consequences. The social question of major concern was that opening-up the economy and introducing market-based reforms would immediately lead to a very rapid increase in unemployment. The Government was not prepared to risk that, nor did it have the wherewithal to mitigate the social implications. Meanwhile, with the tacit indulgence of its sponsors, it continued to heavily subsidize energy prices, increase military spending, and sustain a closed
economy, all with massive US aid and Arabian finance. That left little room for effective
dialogue between the Bank and Egypt for a long time.

Then, after my stint in charge of the administration of the Bank, we had the Gulf
crisis. The Gulf crisis threatened to put a major dent into the economic situation in Turkey,
in the North African economies, but also in Egypt, because all these countries have major
markets, including labor markets, in the Gulf countries. And, of course, what became most
important, it occurred as delicate discussions began to develop with Egypt, one of the
prominent allies of the USA in the war against Iraq. But that, I think, is the end of my
story on EMENA to which I will return later.

The important developments which shaped our work in the Middle East in the ‘80s
were the second oil shock in ‘79 and the ’82 debt crisis. They brought a forceful
recognition of the need for change. That created an opportunity for the Bank, I think used
rather well, to move the various countries away from their bankrupt, socialist-inspired,
inward looking, import substitution philosophy, and to opening their economies, moving to
convertible currencies, reforming economic policies to give support to market-led
strategies, becoming outward-oriented, and striving for integration into the global
economy. The world has yet to recognize the contribution the Bank made to this
transformation.

One thing that did not succeed in Turkey was privatization. It was a complete
failure. Private sector development succeeded, but privatization did not. There may be a
lesson in this. It is perhaps easier to create conditions for private sector development. By providing incentives, including reliable enabling conditions, investors commanding resources will be attracted to create business, establish enterprises, and invest in plant and equipment. But to invest in old state enterprises and try to make something out of them, with all the old obligations in terms of debt, environmental burdens, obsolete technology, is a dicey proposition. It requires very heavy discounts and/or subsidies and even then it may not work - as we can now observe in the former East Germany. I think that should be a lesson as we look at what to do in the former Soviet Union.

Q: Looking back to the early or mid 80s, your assignment in EMENA lasted from '84 to '87. How did you come to be appointed Senior Vice President for External Affairs and Administration in 1987?

A: I don't know. I fought it very hard.

Q: Was this part of the 1987 reorganization?

A: Yes, it was part of that design. Conable had succeeded Clausen in the summer of 1986. He had promised the US Administration a major reorganization to streamline the Bank. Rather inexperienced, but ruthlessly ambitious younger managers, and some obscure outside consultants, were his advisors in the matter. The experienced hands in the Bank were kept out. At the end of the planning phase, I was offered the Senior Vice Presidency for Administration. I declined the offer of the position three times. The offer was made directly by Conable. He found it impertinent that somebody would say no to something
like that. When the offer was made the third time I was about ready to resign, but asked for time out.

As I was leaving the President's office, outside was waiting the German Executive Director, Gerhard Boehmer. He told me: “I'm supposed to talk to you.” “What about?” I replied. “I don't know,” he said. At that moment Conable stepped out of his office and said: “Oh, Gerhard, I wanted to talk to you about this. This guy doesn't want to have the job I'm offering him. You tell him that he's got to accept.”

So Boehmer asked: “What job are we talking about?” I said: “Well, you know, I'm supposed to take on this administration and external affairs assignment. This is obviously not something that I'm qualified for. I can't do this, nor do I believe in this reorganization. Now I'm supposed to implement this reorganization in accordance with a design likely to inflict unconscionable pain. How can you do that? I mean, how can you force somebody to implement something he doesn't believe in?” Boehmer replied: “Can we talk about this tomorrow?” Meanwhile, he consulted with his superiors in Bonn. The next day, he came with a message saying that they were appealing to my sense of commitment and would I please do them the favor and accept. Fifteen minutes later, Conable called and asked if Gerhard had spoken to me. When I confirmed that he had Conable said: “Well, alright, that's done then. When do you start?” And that was that.

I was in it way over my head. I had not participated in the design and was brought in at a very late stage. There were some merits in the new overall design and its objectives,
but lots of demerits in the details, especially the way in which the reorganization was to be implemented on the staffing side. There was now no longer any choice in the matter and I had no discretion regarding either the design or its implementation. The whole process was a foregone conclusion. This was the way it was to be done.

To make matters worse, unbeknown to me, the newly appointed vice president of personnel, Bill Cosgrove, who was to report to me, and the very person in charge of designing the procedures for the implementation of the reorganization, had already been to the relevant Board committees. He had managed to commit the Board to the central features of the implementation plan. I clearly was to be the fig leaf covering the intimate parts of the shameful breach of compact with staff. At least, that's the way I felt.

Now, one other thing happened. Immediately after I took the job, and before I was formally appointed, Conable started to fire people, senior managers. He did so in violation of every single rule in the existing book. Even though he had a new Senior Vice President of Administration also in charge of personnel, he failed to consult on these matters. It was pretty clear that ultimately I would have to hold the bag. So I found myself in a situation where I was essentially serving as a fall guy. I went to see Conable and the General Counsel, Ibrahim Shihata, and said: “This can't go on. We cannot do this without having a mandate for taking all these decisions and you, Mr. President, have no mandate. You need to formally change the personnel policies for the implementation of your reorganization.”

Q: This had come from the Board?
A: Well, it would have to be endorsed by the Board, yes. There was need for a reorganization budget and that had to be approved by the Board. Rights and obligations of staff, formally promulgated, existed in the form of Staff Rules; and they needed to be observed or changed. There were other procedural dimensions absolutely essential to the orderly process including dealings with the staff association. And changes needed to be communicated to the staff before they became effective. Staff needed to know the real conditions of their employment contract. Since there were no individual contracts, formally promulgated personnel policies and staff rules in their totality constituted the contract of employment. Any violation of that contract could be brought before the Bank's Administrative Tribunal - and later it was. It was clearly in the interest of the institution to preserve what was left of the integrity of the relationship with the staff, and to protect it from material damage, that changes had to be introduced in an orderly manner.

So a new - the famous staff rule 509 - or whatever the number was - needed to be shaped, finalized, promulgated and communicated to become the rule that would govern the personnel decisions during implementation of the reorganization but would then self-destruct. This rule was finally put in place, after due consultation with the Staff Association. The General Counsel, Ibrahim Shihata, together with the Assistant General Counsel for Administrative Affairs, Eva Meigher, played a crucial role in this effort. When we had it ready, I went to see Conable to have him sign it. His personal secretary told me that he had gone off for the weekend, and that he had left word for me to do as I saw fit. So
I promulgated the Staff Rule 509 while the President was enjoying himself somewhere in the State of New York.

The whole reorganization turned out to be a traumatic experience. I don't think this reorganization was an event of which the Bank has reason to be proud. It unsettled the relationship between the staff and the institution in ways that are very difficult to repair. The Bank continues to be a very good employer, but with the shock therapy that the institution underwent in 1987 the Bank staff changed from an attitude of commitment to an attitude of compliance, in fact, an attitude of compliance in anticipation. The art of stargazing was perfected by staff and survival instincts were honed. With the reorganization we lost more than just 500 very capable staff members; though that was bad enough.

The Bank sacrificed the atmosphere of fearless and forthright contradiction of superiors, of colleagues, and of the policies of the institution. Staff began to be prisoners of the perspectives of what was wanted. Honest judgement and integrity were at a low. That is difficult to repair, and it will take time until the staff as a body outgrows the psychological impairment suffered as a result of the reorganization. This is unfortunate because the very best asset this institution ever had was the capable and dedicated people that it was able to recruit and whose loyalty and commitment it managed to engage over many years. No small feat considering that the staff had been assembled from more than 100 nations; and a feat never so convincingly accomplished in any other UN or multilateral organization.
Q: You stayed in this position for about two years and then?

A: Well, I took the assignment in March of '87 I believe, and I left on the 1st of January 1990, after about two and a half years.

Q: And then you became once again Vice President for Europe, Middle East and North Africa?

A: Yes! I went to Conable and, he essentially had to accept my resignation. I simply threw in the towel and resigned because a number of trying issues had emerged in the course of my tenure. I was no longer willing to associate myself with what went on in the institution, mainly, but not only, in the area of personnel appointments, promotions and disregard for policies and rules. In critical situations, I did not have the support of the President. Conable was upset because I had given him a detailed report on a number of things I found questionable in the 'new' Bank. Most checks and balances had been removed; there was not even a Loan Committee left worth its name; arbitrary personnel decisions were made at the very top; efficiency and integrity were beginning to suffer. We also were at odds over the conduct and organization of external affairs. Political expediency began to impact operational and strategic priorities; and issues of the day dominated presidential pronouncements.

Q: What were some of the issues?

A: Well, how the image of the Bank was being projected into public consciousness; what we said we were doing in the area, for instance, of the environment; how we went
about selecting senior vice presidents, chief economists, retaining senior staffs beyond retirement age, and a few other such things burdening the credibility of management. 

Conable didn't want me to leave the Bank, at least not at that point. He actually invited me to pick the job I wanted, short of the Senior Vicepresidency, Operations! I redesigned the organization of the Bank's administrative complex and myself out of a job. Then I advised Conable that I would prefer to go back to where I came from: EMENA, Europe, Middle East, North Africa. And so we made a deal. I was going to remain silent regarding my discomfort about his leadership and direction, and he in turn would accept that I could go back to EMENA.

I must say I went back to EMENA with a great deal of relief, satisfaction, and expectation. EMENA was obviously an area I knew well. I thought of the challenges ahead, and I also felt that I could make a contribution.

Q: Because of the changes in the Soviet Union?

A: Not only! In Poland the big bang was about to happen; Czechoslovakia was joining the Bank; and the Baltic States were eager to enter into discussions. Earlier on, while I was still in Administration, the East Germans, formally the DDR, had sent a delegation to explore membership. The Soviet Union also came around much faster than anybody had expected. I was back in charge of EMENA when we drafted the first technical assistance agreement with the USSR in the early summer of 1990, negotiated it, and made it ready for signature. This was to be financed on the basis of a grant from World Bank surpluses since
the Soviet Union was not a member and therefore could not borrow. At that time Conable decided not to carry on as the President of the World Bank. So, in the event, it was actually not signed by him, but by his successor Lewis Preston in Moscow. When was that?

Q: That was in '91.

A: August '91, I think it was. In the final stages of the preparation of that document, I began to worry about the cohesion of the Soviet Union. At the very end of that process, I insisted that we would insert a clause under which the content of the technical assistance agreement with the Soviet Union was made applicable to every single republic of the Union only upon the latter's signature as listed in an appendix to the agreement. The Soviet Union remained the principal party to the agreement, but each and every Soviet republic was asked to sign and accept the terms of the agreement. Once the agreement had been signed by a republic it became eligible for technical cooperation with the Bank under the terms of the agreement. The government of the USSR did not, to my surprise, object. I can only speculate but this may well be attributed to the fact that some of the republics had retained all along separate membership in UN organizations.

Of course, this was all predating the events that brought Yeltsin to power and led to the dissolution of the Soviet Union. While we had no intelligence we had strong vibes from different quarters, especially our new members from Central and Eastern Europe, that this was likely to occur and perhaps sooner than people in the West had expected. As soon as the agreement was signed, it was not really relevant any more.
Something else happened in the summer of 1991. We had prepared this technical assistance agreement with the Soviet Union in the expectation that membership would be very slow in coming. We had actually developed a design under which technical assistance would be granted to the Soviet Union without there being a definite expectation of membership. That was new, because it meant that we were going to use budgetary resources for the benefit of a non-member. It meant taking away those resources from the regular membership, especially Africa, and giving them to the Soviet Union, a non-member. This we couldn't simply do: we had to have agreement of the membership and the approval of the Board, that meant a positive response from some 150 capitals around the world.

Negotiations with the Board were delicate because it was not a foregone conclusion that the majority of the Board, either in terms of numbers of seats or numbers of votes, would readily accept that very scarce and highly concessional resources would be used to benefit the Soviet Union at the expense of the least developed countries. Finally negotiations succeeded and we had the votes to support the agreement. But we had to pay the price by creating a technical assistance facility for the benefit of other low income countries, all out of income and reserves. That entailed another unfortunate ramification. The business of extending technical assistance grants was actually reserved for the UN, specifically the UNDP. As we knew from previous encounters this prerogative was
jealously guarded. And now the Bank trespassed once again - for laudable but nevertheless tactical reasons. It was duly noted and we soon heard about it!

All of this was essentially in place but we had not yet gone to the Board for approval of the agreement and the grant when - it must have been in June of '91 - Conable called. He asked me to come over quickly as he had something important to share. As I went up to his office, he came out and waved a piece of paper. In an excited tone of voice he said the Ambassador of the Soviet Union had just left after handing over this piece of paper, actually the translation of a Russian text which he had too; it said: "I hereby on behalf of the USSR apply for membership in the World Bank. Yours sincerely, Gorbachev." I don't know what I thought and how I felt at that very moment. It was like having reached the top of the flagpole and wanting to go home and rest - all at the same time. We had succeeded; our work and vision appeared confirmed by these very few and simple words. It all seemed so worthwhile.

I turned to Conable: "you know, he can't be a member of the Bank without being a member of the IMF". He replied: "yeah, the Ambassador is on his way to Camdessus, he's applying for membership in the Fund, too; same letter." We retreated on to safe territory by reassuring each other that it was in the IMF Board that the battle over USSR membership would unfold. Out of the blue, right in the middle of our very trying efforts to help the Soviet Union with some technical assistance, without membership and obviously without any loan finance, the decision had been made in Moscow to jump and join. This was now
putting the USA on the spot which had consistently and up to that point arduously opposed Bank and Fund engagement in the Soviet Union in any form.

By the time we went to the Board with the technical assistance agreement, and by the time it finally came to signature, none of these issues mattered anymore. It was now in expectation of full membership that we were going to be active in the Soviet Union, the former Soviet Union. An exciting and at the same time frightening challenge. It was bound to change the World Bank beyond anything we had known not just because the Soviet Union was joining but more important because the cold war was no more. In short succession thereafter, Russia and everybody else of its former empire became members of the Bank. The model earlier pioneered in Central and Eastern European countries, served well as the gateway to Bretton Woods for the successor states to the Soviet Union.

Almost my very last involvement on these issues was a special USSR meeting of the G-7 Deputies on September 5, 1991, in the Hilton Hotel in Dresden. Mr. Köhler, the German Deputy, Secretary of State for Finance, was the host. He apparently had chosen Dresden to offer his peers a striking contrast of progress in the DDR to what his guests were used to in the Federal Republic. The USA was represented by Mulford, France by Trichet, the UK by Nigel Wicks; the IMF, EEC, and the EBRD were also present.

That meeting focussed on the potential need for crisis management in the Soviet Union during the winter of 91-92. There was a major concern on the part of the United States, Germany, France, the UK about the short-term supply situation, especially
potentially acute shortages of medical and food supplies. The Bank was severely criticized by the US at the meeting, for not having produced a timely and thorough agricultural sector review to tell the Western powers what the reasons for the malaise of the agricultural sector were, what the supply situation actually looked like, and how it could be resolved. This had me very upset because as late as August of that year -- this was now in early September -- precisely, the G-7 had steadfastly refused that the Bank would spend a single cent on any work including analytical inquiry in and on the Soviet Union. So here the Bank again was to be a very convenient whipping boy should anyone need to be blamed.

At the end of that meeting the chairman suggested: “Now, I would like you to think for two minutes. Then each of you has another two minutes to tell us what you consider to be the major issue likely to emerge in relation to the Soviet Union in the next nine months.” We all put our best guesses on the agenda. I said then that I thought the major preoccupation in the next nine months that would emerge, not only for the Soviet Union, but for the world at large in relation to the Soviet Union, would be the distribution and the redistribution of assets and liabilities of the former Soviet Union and its successor states. In other words - who was going to inherit the USSR? They all thought this was totally irrelevant. In retrospect, the only thing wrong with that prediction was the time frame. It still remains the most trying and most unresolved issue.

Q: Were you involved in preparing the briefing papers for the Soviet Union about membership and about persuading them that they should become members of the Bank?
Were you also involved -- I think the Baltic republics were the first ones to split off and talk to us separately -- in dealing with them?

A: Yes, and for the Baltics, very much so. But the other republics also. Of course, there were a lot of discussions at all levels including Conable, Stern, Qureshi and others. Three people handled the detailed discussion with the Soviet Union, Shihata, David Bock and myself. Russ Cheetham, by then Director of the country department concerned, did much of the paper work. These initial briefings were not so much in terms of legalities, articles of agreement, and things of that nature, the briefing was more basic, and it wasn't really a briefing on what constituted membership. It was much more a dialogue on what could possibly be done for them to regain a fair amount of economic momentum.

Actually, it had begun during the summer in the context of the technical assistance agreement. While the Russian counterparts wished for it, it did not lead to expectation that they would join that soon. In fact, it was quite the opposite because of the US opposition voiced at the highest levels. We were therefore very surprised when the Gorbachev letter suddenly came in. After all he had risked being rebuffed.

By the time of the Annual Meeting in Bangkok in '91, the Russians were there in full force. Membership hadn't occurred, but they were expected to become members any moment. So, then they were there with an official delegation and we had to deal once again with all the specifics, the question of the Articles of Agreement, rights and
obligations as members and so on. For that, there is actually a standard briefing process, handled by the Secretary of the Bank with the help of the Legal Department.

The interaction with the Baltic countries was somewhat different. The Baltic republics, of course, had already pronounced their independence and after the first coup of '91 Gorbachev had let go. So in September of '91, Richard Erb from the Monetary Fund and I attended a conference with the then prime ministers of the three Baltic states in Tallin. We had two days of intense discussions with the Baltic states at the highest level. It wasn't a question whether they were going to join - they wanted to join very badly - the issue instead was to keep them from developing exaggerated expectations, to ensure that they remained realistic in their expectations as to how fast our institutions could move, and what they could and couldn't do.

It was an important encounter because the notion amongst the Baltic leadership was that they would say goodbye to the Soviet Union today and tomorrow dollars would start flowing as a reward for their leaving the Soviet orbit. It was barely understood that this was not the way it was going to work.

There was one other person present in those briefings with the Baltic prime ministers, a person who was exceedingly knowledgeable about the Baltics and played a very constructive and positive role, then and later on. That was Jannik Lindbaek, then head of the Nordic Investment Bank and now the newly appointed head of the IFC.
Q: Now, I wonder if we could understand how it is that you ended up being given the responsibility for the review of the Bank’s portfolio?

A: The powers that were had begun to lose credibility at the end of the Conable tenure. Lewis Preston had initiated a new management concept; in the process Moeen Qureshi left the Bank and Ernie Stem took on a less exposed but once again powerful role in operations. Preston was moving towards a further limited reorganization which also involved a reconfiguration of the Regions. Wilfred Thalwitz, another German who, in the interim had become Senior Vice President Development Policy, had also been reorganized out of his assignment. So, EMENA was split up between Eastern Europe and Central Asia on one side and Middle East and North Africa on the other. Thalwitz took the Eastern Europe assignment and Caio Koch-Weser was promoted to Regional Vice President Middle East and North Africa. I was offered the position of Director General Operations Evaluation. But before we get further into that, there was one episode we didn’t discuss at all and that had to do with the Gulf crisis or rather the Bank’s involvement in its aftermath.

The Gulf war against Iraq had a strong and sudden negative impact on those economies who either received workers remittances from or who had major markets in the Gulf states. Many countries in North Africa and in the Middle East, including in particular Pakistan and Turkey, but also India and others, were severely affected. It was yet another threat to a promising development underway which was difficult enough to sustain under normal circumstances. Following discussions with the US and other Arab countries in
good standing we set up a crisis response mechanism. First, we tried to ensure that relief decisions being made by the United States and its allies were based on reliable economic analyses. On a regular basis, we provided the crisis committees, set up to mobilize support for the severely affected countries, with reliable economic information and data. Second, we developed our own special program with the approval of our Board for the most seriously affected countries. Various instruments were put in to help Turkey, Morocco, Tunisia; and also Pakistan and India.

Exceptional compensatory balance of payment support was provided in cases in which demonstrably foreign exchange earnings had severely declined as a consequence of the Gulf crisis. In the process, we managed to prevent panic decisions to become stuck. For instance, Secretary Baker one morning went on television and announced the establishment of a Middle East Development Bank. We had never heard about it so I went to see Conable and asked him whether he knew anything about this. He told me that he had suggested it to Baker. I thought this to be an absolutely silly idea and said so. After some debate, later on he apparently called Baker and the whole thing was dropped - for the time being.

But he also asked me, and he was quite right, to think about ways to stimulate development in the Middle East as a region, not country by country. We developed a vision paper for regional economic dialogue and intra-regional economic exchange including trade, labor movements, and the establishment of regional centers of excellence.
The central issue in this dialogue was not to be Israel - first and foremost. One can talk about Israel forever, and the Arabs will certainly do that. Meanwhile, that means missing the point, namely that by the end of this century, water was bound to dry up completely and become the flash point unless alternatives were being developed at regional level. Arab economies suffered because of restrictions of movement in most Arab countries on goods, people and services. These effects became more severe as a result of the Iraq war and minimal trade activity. Any economic expansion, a precondition of future prosperity, would need to include increasing economic interaction amongst themselves.

There were long-term, medium-term and short-term prospects to be built into any such scenario - ultimately also involving economic interaction with Israel. We developed, as I said, a vision paper for that which I tried out on the Egyptian Ambassador, El Ruddy, on my very last day as Regional Vice President for EMENA, the Region about to disappear. That vision served as the starting point for my successor, Caio Koch-Weser. He, together with Harinder Kholi developed it into an actionable blueprint which gave the Bank far more prominence than it ever had before in the thinking about solutions to the Near East crisis.

The Bank's emerging role was focussed on technically supporting the revival of the Middle East talks at the tail end of the Bush Administration. Another prominent participant for the Bank after I left was an Indian staff member, Prem Garg. He coordinated much of the Bank's technical advice to participants in the Middle East talks.
This potentially important role is also very sensitive and risky. I don't think the Bank can afford to let it expand beyond where it is; it has to confine itself to a technical support role.

It must not take the lead since obviously the critical dimensions for the early part of the next century are political in nature. The Bank is neither qualified nor does it have a mandate to engage at the level of diplomatic or political play. But in the area of water resources management and development, very important work is now on-going in which the Bank is and should remain critically involved, especially in countries directly related to the scenario that emerged after the Gulf crisis.

Q: Let me move back just for a moment to a question that really relates to personnel and also administration. The question of the Bank's compensation system. How do you view that system? Do you see it as being an effective or a fair system?

A: When we talk about the compensation system, we need to keep in mind that it involves both the remuneration of active staff and the pension scheme. Both need to be kept in view. Both were reformed while I was in charge. Three critical components were in need of a new look and, as it turned out, change: First, the comparator base; Second, the grossing-up formula; and Third, the pension entitlement and their impact on staff behavior.

The compensation system, I found, was essentially based on US comparators; it used the relevant US level of compensation as the base and then compared it roughly with one or two -- France and Germany -- international comparators at three-year interval measures. It needs to be stressed that the compensation system of the Bank was then and is
now based on net pay, that is salaries payable after tax. The comparison, however, uses the
gross- that is the before tax basis. Non-US staff are paid net salaries while on active duty,
US nationals are paid gross salaries since they are not exempt from US income tax.

Because of the tax exemption advantages US colleagues potentially had over international
staff, this led to endless arguments in the past.

The tax component of that system is also needed for grossing-up net salaries for
purposes of the future pension entitlement, since pensions are generally taxable in most
member countries. It had been geared to a level of taxes that were in place during the
period of high taxation internationally. I forget now what that taxation level was at the
time, but we are talking around 40 percent on average. This level was no longer really
relevant and certainly not in the USA after tax deductions. So we had two problems. We
were vulnerable because of the assumptions we made about the level of taxation. That was
important not only for the pension scheme because the pensions are gross pensions, but
also for the staff contributions to the pension fund which are based on the grossed-up
salary scale. That was necessary to ensure that the pension fund was fully capitalized at all
times as is required for a US-based defined pension plan. But it meant that gross-based
premia were payable out of a net salary. Especially for younger staff and at lower pay
scales, this left them with rather meager take home pay, but with great pension prospects.

If the grossing formula had been allowed to continue some pensions would by now
be well in excess of $200,000 p.a. though gross and taxable. Just imagine some newspaper
in the United States picking up that some fellow walks out of this Bank with more than $200,000 in annual pension. The next thing you would know is that there would be a cap imposed on this; most likely a political cap of little relevance to legitimate staff interests.

Another aspect concerned the fact that under US law, the preferential tax treatment of defined pension plans ends with a maximum level of $95,000 p.a. That posed the question of the Bank's handling of pension entitlement above that level. In other words, pension payments above $95,000 p.a. need to be paid from the budget to ensure that the pension fund continues to qualify as a defined pension plan under US law. That remained as another vulnerable component.

A further troublesome development besetting the compensation system was that the U.S. level of compensation was actually declining while the rest of the world's levels of compensation for professional staffs were fast increasing. This was very noticeable in Europe, but not only in Europe, also in countries such as Brazil and others in Latin America, and also in Asia. So we began to find it difficult to compete when recruiting highly qualified professional staff internationally. There were more rejections of offers than ever before; we were getting rejections of offers especially of the very people we were most interested in: those who had solid experience before coming to the Bank, you know 40-45 year old professionals. We had no difficulties in attracting young professionals just out of universities but great difficulty in getting mid-stream professionals that would keep us from becoming too incestuous.
So we did two things. We revised the comparator base to become more regular and better related to our international labor markets. The lead comparators in Germany and France were retained on the assumption of a more integrated community in Europe; those two economies together would define the level of professional salaries. We built a formula which allowed a 10 percent quality margin, so that the Bank's salaries should rest about 10 percent above the international comparator level. In practice, there would be no automaticity, but the Bank would be free to set salaries within this 10 percent range.

At the same time, we corrected the assumptions used with regard to taxation. We needed to provide some relief on pension premia. We corrected for the changes that had occurred in taxation in major member countries - I forget now what the exact levels were - but I think we ended up with an average of around 28 percent.

Since there was parallelism with the IMF on compensation matters we had tremendous fights, especially with the International Monetary Fund; more so on the pension reform than on salary. Finally it became clear what the kernel of preoccupation in the Fund was. The Fund had been running ahead of the Bank in pensions levels because they had, unbeknown to the Bank, some time ago introduced an advanced cost of living adjustment program. The cost of living adjustment for its pensioners was based on the actual retirement date while Bank adjusted at the first anniversary. This made a difference of something like up to 6 percent in otherwise comparable pension levels. The Fund people, trying to protect this, were afraid that they might lose this privilege. Finally, we
achieved symmetry by getting the Bank to adopt the COLA provision of the Fund. We also revised the formula governing accruals of pension entitlement. This was designed to make it more attractive for staff to retire at an age earlier than 62.

I think it's a good system. Those reforms were right at the time; continue to be right in the light of international labor markets. But its application in the Bank is a trauma. For three years running now the Board has decided not to abide by its own policies. And the management has allowed the Board to get away with it. I think that's just frivolous. If you have a compensation policy and you don't stick by it, you are better off not having one.

I think the politicization of this issue, totally unrelated to its merits, should have been cause for the President to resign. The staff, after all, is mainly non-US, resides temporarily in the US, has no re-entry guarantees back home nor in most cases social security or unemployment protection. The real and most burning issue, however, is that the institution loses its competitiveness as an employer of highly qualified staff. The consequences are becoming already visible. I simply do not accept that this is something that can be tolerated, and I believe that management has a responsibility to adequately represent the interests of the institution and its staff in this respect as well. It's a very unfortunate development in the Bank. What's happening is -- and the facts demonstrate that -- that we are again faced with a situation where our recruitment efforts suffer.

Q: What about the criticism that this compensation system doesn't really bring in the right skill mix that the Bank is looking for? That it tends to overpay people in support
functions and hinders the turnover in those categories, while it still leaves the difficulty of attracting the kind of people that you were describing, in their mid-40s with experience from a wide range of international backgrounds. Do you feel that criticism is valid in any sense or not?

A: It is. The question of the secretarial and support staff is always there. The policy in this regard was changed, I think, in 1974 or thereabouts, when a policy was introduced saying that support staff should not be internationally recruited. This meant hiring in the local market, which really meant going to the embassies. Where else do you get international staff?

In the support areas, we are not competing in international markets for secretaries the same way that we do for professionals. When you take a very hard look at the comparison of our secretarial staff to that serving in the metropolitan area, here or elsewhere, there is no doubt that our secretaries are paid higher than the comparators. We had a very long and thorough discussion when we introduced the reform for secretarial staff. We then finally decided -- there was a compromise -- that we would have an integrated salary scale and abolish the distinction between professional and non-professional staff. That was a decision that was taken to prevent internal turmoil, but it's not based on international nor on domestic comparison. It is a symbolic recognition that secretarial staff can progress to professional ranks.
This decision was influenced by an incident when we were coming close to a major strike in the institution. Conable actually had to address a meeting of the staff association mainly attended by secretarial staff. He was severely taken to task on all of these issues which impressed him no end. Ultimately he made the decision that he was going to fight for the secretaries and win this one. I think, strictly speaking, in terms of the location in the greater metropolitan area of Washington, this was a questionable - political - decision. But when you look at the support staff and its composition, you will find a remarkably large number of non-American nationals. I don't think the issue for support staff of the quality the Bank needs, rests so much on pay scales. The issue of secretaries rests far more on the way we use them. If one were to change their terms of reference and you put them into positions where they would make a more substantive contribution. As administrative and research assistants, fully familiar with office technology, office management skills and the like, one would be able to reclassify them. The fact is that the Bank actually needs far less of the old type secretary because of the advent of modern office technology. The salary issue for support staff should be solved through a different utilization of that resource. But you are quite right. That criticism was basically justified.

Q: In the course of our discussion, you've mentioned many of the presidents that you've worked with. How would you compare them in terms of their style and effectiveness?
A: Well, this is a very subjective judgment. I shouldn't even use the term judgment, more an attempt to evaluate. I think Gene Black was a southern gentleman of tremendous acumen. I had the highest respect for this man. He gave me the impression of a statesman and yet he was approachable. He clearly was a skillful diplomat and a person who by force of his personality had the respect of his Board. But he was also revered by his staff. He was the sort of patriarch who would rent a box at the Redskins game and would invite staff members who had done a good job to join him to watch a game on Sunday afternoon. Today this would no longer be considered appropriate and yet we all yearn for it.

He was a very attractive, highly effective manager, but I consider him to have been more than a manager. I think he was a credible leader and a gracious statesman who dealt effectively with difficult international issues.

Then we had George Woods. George Woods was a rough diamond. He walked into one of those meetings with his staff, announcing that he had news for us. "We will do away with first class travel." He couldn't make it stick - but he tried. That was when the IDA replenishment negotiations were running into heavy weather in 1966 or 1967. He was a man full of ideas. He started to support education, tourism, health, and he wanted agriculture to be doubled overnight. When we said it couldn't be done, he threatened to turn it over to FAO. He was a good articulator but not all that communicative and he was not very good with people, always confrontational. He had difficulties in enlisting loyalties. While he had these ideas, he couldn't really shape and form them into a sort of
vision that would inspire. But he was an ideas man and I still think that he has been greatly underrated as president of the Bank.

It's not quite fair to compare people such as Black and Woods. Black had a long tenure, he had the institution in his blood. Like owning an old car, you come to know exactly where the potential for trouble is. In contrast, somebody coming for a 5-year term into an organization as complex and large in mission and reach as the Bank, still doesn't quite know how the institution works at the end of his first term. Woods was a lot better than his reputation, and he has made a larger contribution than he is given credit for. Not everything worked out, but he tried and in many ways he laid the foundations for what McNamara was to build on after him.

He also had dogmatic ideas. He didn't believe in state enterprises in industry under any circumstances. Henceforth, there was no industrial financing by the Bank; industry lending would be done exclusively by IFC under Woods.

His successor, McNamara, came in in exactly the opposite position: he didn't care who the owner was; he only cared about the efficiency of management. Now we know that doesn't quite do the trick either. He was continuously setting specific quantitative targets. He cared very much about those targets being reached. Anything that couldn't be quantified would not count as reasonable goals in terms of managing ones affairs. In operation, that meant that the mark of ones achievement consisted of the size of the budget and the volume of financial commitments. The two were always seen in direct relationship
and success measured in these terms, not only for managers, but also for the institution as a whole.

The question of quality was secondary, if it mattered at all. I suppose intuitively and instinctively it mattered, but since it wasn't a measurable quality, it just was neglected in the process. It was taken for granted.

McNamara was very keen to be perceived as an effective manager. He had us all speechless when he first started. He had almost total recall. He had a force of recollection and concentration the like of which I have not seen in any other person. And so, this combination of force in creating systems, setting specific, highly quantified goals, measuring performance through them with an almost complete recall, created a personality of overbearing competence that people were rather afraid of.

He was also a fairly distant person. He was not readily approachable. It was not easy to talk to him. He could be very blunt and unresponsive, and that again made him more distant. He was not at ease with people. I've met him in social circumstances as well as in official circumstances, but, when you met him in the not so official circumstances, at times you had the feeling that he was wrestling with himself. He could not relax and become approachable or personally warm. He'd forced himself into such a restrictive and reserved attitude that it became very difficult to break out of.

But he could be very emotional. I will never forget an experience. For some reason or other I was invited to be present at the signing of a loan agreement with the head
of state of Costa Rica who happened to be in town on a state visit. To make this a bit more of an event, he was supposed to sign a loan agreement with McNamara in our Board room.

We sat there that morning at 9 o'clock sharp and McNamara wasn't there. Unheard of. Then six or seven minutes later he came in, rushing to his chair, sitting down, shaking hands. And then he started to apologize and said that Bobby Kennedy had been shot. He was still alive and he, McNamara, was still looking for the last news so that had made him late for the signing.

The President of Costa Rica already knew, but hadn't expected this to come up in this connection. So he then started to say something kind in offering condolences. He knew about the closeness of McNamara to the Kennedy family. So after the President had spoken, McNamara replied, and he was a few sentences into his reply, saying something about how lucky the President of Costa Rica was to live in a civilized country, and what kind of a mess his country was in and so on. Suddenly, he just absolutely broke down and started to cry. He pressed his hand over his eyes and had tears streaming down his face. It was a very moving scene. Then the President from Costa Rica felt invited to say something soothing, which he did, very unusual, at a signing ceremony you don't speak twice. But he did. He responded by saying what a great country this was and how much America had given to the world and what it taught the world, about the U.S. constitution and so on. He was actually a scholar of the United States Constitution so he spoke quite eloquently about the founding fathers. Now McNamara felt invited to speak again, and he was probably in
his third sentence when he broke down again. He jumped up, his chair fell back, and he raced out of the room. He had totally lost control. It was so hurt. It was a real surprise for us to see this man disintegrate the way he did when normally he appeared to be in total control.

But as a manager I think he was much overrated. He did inspire and he did communicate, and he communicated well. But I always felt that he was straining, forcing himself, trying to prove a point. No one was ever relaxed in his presence. But while he was perhaps a better manager than I am willing to admit and an effective administrator, he was not a natural leader in the sense that Gene Black had been. As a leader, I think, he failed. Even though I made much of my career under McNamara, I never thought that he was the inspiring chief executive that you needed at the top of an institution such as the Bank.

I should perhaps qualify that by saying that when he came to the institution it was still small, he made it very large. He was energetic and immensely industrious. And he, too, like Black, felt every part of the institution in his bones and, therefore, could administer it much more effectively than the people who came after him.

But his mentality was control oriented. He was very much the super accountant. He was not a person that empowered or inspired nor did he have confidence in others. He demanded action and performance in accordance with his own perceptions. He could not solicit creativity because everything in the person insisted on compliance. Ultimately, he
was not even a strong manager when it came to personnel decisions. He threatened, but he found it very difficult to get rid of people and took recourse to all sorts of schemes to correct managerial misalliances. So, on balance, while I find that Woods was underrated, I find that McNamara was overrated.

Clausen. Clausen had great difficulties in getting attuned to this institution. When he first came in, he thought this institution was on automatic pilot. Of course, at that point in time he hadn't yet discovered where he stood, nor where the real automatic pilot was located and when he found out it was too late. He was caught up in details that the McNamara systems constantly elevated to the President's level. He couldn't work the McNamara levers though he tried. And that was perhaps his biggest mistake.

I thought he did a very good job in terms of restoring the Bank's finances which had become a bit shaky at the tail end of the McNamara tenure. And he did that in gentle ways without too much of a problem. He ran into something that he should have anticipated but didn't, and blamed the Bank staff unjustly for not warning him. That was the August '82 debt crisis. He was in the Bank a year when that broke. He of all people should have known because he came from the Bank of America and the debt crisis broke in the Americas -- in Mexico in particular. I am not quite sure what happened, why he was caught unawares. He suffered a terrible annual meeting in Toronto in September '82.

In rapid succession, the Baker and then the Brady plan, were developed to get the Bretton Woods institutions involved in managing the debt crisis. That left Clausen little
time to think about the details of managing an institution that by now had three prominent
dimensions to it: those of a bank, a development institution, and that of the largest
operational research establishment in the world on matters concerning development. But
in time he, too, became a very committed supporter of the Bank's mission. He never quite
rose to the kind of intellectual leadership that by then the institution needed and he
remained somewhat uncomfortable with development issues foreign to him. He was a
classical, bottom line banker with good judgement, he remained a banker, tried very hard
to master the language of the development economists, but ultimately I don't think he will
be regarded as one of the great Presidents of the Bank as a development institution;
perhaps unjustly so.

Now, Conable, I don't know what mandate he came with. But at any rate he came in
'86 and moved straight into the reorganization in '87. He didn't even know what he was
reorganizing, nor do I think he cherished the prospect at the time. He simply knew that he
had to reorganize. And that knowledge that he had to reorganize, I can only surmise must
have come either from outside pressure, or deep conviction that the political goal of
increasing the capital of this institution sufficiently to make it self-sustaining into the next
century made it unavoidable. This was to him much more important than anything else.

He had a strange sense of priorities, but I wouldn't fault them necessarily. He
struck me as a caretaker appointment with an agenda a bit too large for his own good and
that of the institution he was now running. But if the pain had to be inflicted, and if the
strengths of the institution had to be sapped in one quarter to insure doubling of the capital and thereby the strengths of the institution in another, history may prove him right. But, I doubt whether he was aware of all of this in those terms at the time. But, you know, he saw to the doubling of the Bank’s capital, successful IDA replenishment, and a huge increase in IFC’s capital, and the launching of MIGA.

No small achievement, indeed a pretty good track record.

Q: Which was invented, though, by Clausen.

A: Yes, for MIGA that’s true, but then Kennedy invented lots of things but it took Lyndon Johnson to get them turned into action. Clausen wanted the capital increase and would never have been able to get it. Yes, all of these major decisions had usually been in the making for some time. The presidents then picked up certain issues and with their respective strengths and weaknesses pushed this or pushed that. But, to get a doubling of the capital in 1987-88 that was clearly a major accomplishment. I would not underrate that.

Now, in terms of leadership of the institution, Conable changed during his tenure much more dramatically than any other president I have seen. From being a very doubting Tom and a highly political animal, to being deeply committed to the Bank’s mission by the time he left. I think he learned on the job dramatically, and he might have been a good president if he had given himself a bit more time. But even in leaving he may have done the Bank a favor, because I think he left at a time when he thought he could secure a reasonable
succession. Now, whether he was right in that, of course, only history will tell, and then only partly since we will never know how the alternative would have worked.

I can't really say much about Preston. I've had quite a number of discussions with him, but I haven't had the opportunity of watching him closely. So it is somewhat difficult for me to give an evaluation. I am sure you wouldn't want me to say something that I can't responsibly do. But he obviously suffers from serious health problems which must be exacting given the demands of the job. The kind of managerial decisions he has taken, I hold my breath. What he did in transforming the managing committee, that's fine. I think the looseness of the chain of command below the level of the Managing Directors would cause me to stop and think.

I don't have the feeling that the institution is being pulled together. And I don't have the feeling that the institution at this particular point in time has a common sense of mission. In fact, I think at the moment it has probably less of a common sense of mission than it has had in a long time. But that is now beginning to be an outsider's view because I can't see it as much anymore from the inside as I still did a year ago.

Q: Thank you very much for a very full and thoughtful interview.