

**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**ELKYN CHAPARRO**

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**By: Richard Webb, Devesh Kapur**

## FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Elkyn Chaparro*  
*June 29, 1992 – Final Edited*

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

**CHAPARRO:** . . oh, yes. And you can go through the titles. It's very important to see this change of history. This change of history happened in the oil crisis. Look, originally the Bank did only project lending. This is, you know, back in the '40s and the '50s; in fact, projects were things that created a cash flow--roads, at the most. It was power; it was telecom. That's why the strength of the Bank was financial analysis.

Then we moved into the social sectors--this is the *[Robert S.]* McNamara years--and the creativity of the Bank, which was well, was all this new economic thinking on how do you create a rate of return for social, you know, for human resource investment. And there we helped. We pushed a lot of the thinking of academia also in terms of what is the economics of human resource investment. And we were all--that's *[inaudible]* but we're still projects. In the mid-'60s there developed the idea that for the countries that were so efficient that they did not need any more the tutelage of the Bank for projects, then we could do sector lending, which was very much of what became later program lending--which was the next phase--which was that you gave a guy a check. And, you know, so the Brazils of this world, for example, who had a massive municipal development program, "Okay, you come up with all this, and we'll simply finance a check of, you know, we'll give you, and since you demonstrate that anyway you're following competitive bidding, which fits our." So we go to the Board *[of Executive Directors]* and say, "Don't worry, because all the money is going following Bank criteria. But we are not going to be supervising. We are not going to go to you, Mr. Board, and tell you that we know exactly which piece of"--that's the ultimate. That was the beginning, you see, of this non-project lending, of non . .

**[Tape skipped]**

**CHAPARRO:** . . and so this was called sector lending. And the best performers of the Bank was getting this.

Then it was the program lending that started appearing. Program lending once again was even the best of best. This was to help. This is the Colombias, which were the largest [both speaking at once]

**KAPUR:** The largest one was India, the India loan.

**CHAPARRO:** India. [both speaking at once] Colombia was the chouchou of the Bank. India was the chouchou of IDA *[International Development Association]*--and of the Bank, of course. Of course, India was [sound like a growl], and Colombia was the other side. And that's what got into this whole issue of getting us into program lending because these were the ultimate. You know, these were the pre-graduation, and one would never even consider giving this type of money. They were not creditworthy. Look, the non-performers got the simplest.

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<sup>1</sup> Original transcript by Brookings Institution World Bank history project; original insertions are in [ ]. Insertions added by World Bank Group Archives are in *italics* in [ ].

And then came the oil crisis. And then we were saying, “Look, we've got to do something about this.” And the reasoning dramatically changed and said well, “Everyone is uncreditworthy unless--the first thing we do to a Sierra Leone” you know, who has been running like a far-west situation, “is you give them a structural adjustment lending. They are not creditworthy for project lending.” So they said, “They're not credit worthy at all.” So the only way to make them creditworthy is that they do a structural adjustment program. So what do you give them? Free cash! And then began a completely different--you see how it upside down changes the reasoning? Because from that moment on the reasoning was that the first thing you have to do when you were a nothing, a Peru coming out of the--or worse--a Sierra Leone, a Liberia, a Somalia, a Sudan, because now first you send a mission to set up a PFP [*policy framework paper*] and a structural adjustment loan because what they need first is cash.

And this brought us into basically the budget-financing business. And we were brought into this with our eyes closed. You know, the Bank never--only now the Bank is realizing that this is actually what we were brought into. We were brought in to make the life a little bit simpler for the people we were trying to get rid of, which is the drama of structural adjustment lending, became in the non-committed countries, you know, those countries which would be the—see, we literally would go into Sierra Leone, and we'd see a guy, you know, this general has just made a coup. You know, he doesn't know anything about economic platform. And he says, “Mr. President, do you want to be a respectable presence in this world? You need a structural adjustment.”

“What the hell is that?”

“Let me send you down a mission.” So a mission will come down and come up with all these things.

He says, “Sure. Where do I have to sign? Where's the bottom line?”

I say, “Sure. Here. How much a case?”

“Fifty.”

“Then we're going to get a consultative group meeting for you so you're really going for something.”

And he'll say, “Fine.”

But none of this was something that was really a deep conviction of a country. This was not [*Carlos*] Salinas. This is not [*Choudhary C.*] Singh in India now. These are the cases in which I would probably give them the check. Singh in India, the guy really wants to do it, or Salinas in Mexico, or now [*Domingo*] Cavallo in Argentina, or these, the other cases one could say. [*Bernard T.G.*] Chidzero in Zimbabwe today is clearly a case of someone who wants to do it. I mean, there the structural adjustment did not take that route, really. It took the route of those “let me give you the salvation” for those countries that are totally screwed up. And this totally brought

us therefore into the business of budget subsidies, which is what this amounts to, really. It's a check.

**WEBB:** Now what was the Bank thinking it was doing?

**CHAPARRO:** The Bank thinking was—see, this is where we have to see the sequencing as I see it. This is my opinion, as I see it, that the Bank was brought into the issue first of the--basically the debt crisis. See, let's go back into history. What occurs? The world is going well. Then the oil crisis comes. And the oil crisis you've got to do the first phase of recycling: commercial banks. And the commercial banks did it even in Africa—you know, all over the world. So they got into the first—they got sucked into this first phase of writing checks to governments, you know, sovereign countries.

Irving Friedman told me once when he left our Bank and went to Citibank, he said, "Sovereign countries never go broke."

I said, "Have you read history? You know that Mississippi is still suing?" You know, Mississippi still is being sued by the English bondholders. You know this?

**WEBB:** No!

**CHAPARRO:** Yes. Even today. In 1860 they defaulted on bonds they haven't ever paid back, and they're still being sued by the--there's a very nice little book by what's his name, the guy, the history of banking, but, you know, a rather exotic book, but all these are historic events.

So I told this to Irving Friedman, and he said, "No, no. You are wrong. Countries don't go broke."

**WEBB:** I wonder if he got that from [*Walter R.*] Wriston or Wriston got it from him.

**CHAPARRO:** Who, Friedman?

**WEBB:** That phrase.

**CHAPARRO:** I don't know, but . .

**WEBB:** Because it's a famous phrase. [both speaking at once]

**CHAPARRO:** . . Wriston hired Friedman.

**WEBB:** That's what I mean.

**CHAPARRO:** So it must have been—you know, Citibank was very much. So they got--but one could say, quote unquote, that their role of the--Wriston's role--was much more irresponsible than ours in that sense because they were able to just giving checks.

But then we were brought in, and we were saying, “Look, this we've got this problem. We've got to transfer a lot of cash to these countries because, you know, we cannot simply--so we've got to find some way of doing this.”

So he says, “Sure. We're going to give money, transition money.” See, so we're gonna--they have this really good Salinas-type of transformation or Singh-type of transformation, but there's a transition cost. So we're going to give a check for paying the transition cost. And you bring all the economists--and this is the justification of structural adjustment lending, the only one.

**WEBB:** And the Bank was really believing it?

**CHAPARRO:** At the beginning I think that--this is why one has to see the aspects--I think that the staff really believed this. And since we were extremely—we are very Cartesian, we have to explain this to the Board. We cannot go tell the Board, saying, “Look, we're making this loan because, you know, we've got to keep this country alive.” So this was transition money.

Look, there is some very interesting debate which you must have found in the file--should I say ten years ago or five years ago? [*Ernest*] Stern had some very interesting debates on the question of earmarking of Bank money, see, because this was a big issue which the bilaterals have not agreed to yet, which is, you know that the adjustment money, you earmark it, you actually say where it goes, and Stern always strongly defended, in my recollection, very intelligently, very--as usual in him--very well that we should not earmark. That is, if you give a check to the government, it's a check to the government, even if all this goes basically to buy, to pay salaries. And so therefore it became that in a structural adjustment loan you only have a negative list of things where the money cannot go to. But you don't have—because there is a lot of argument, even today--in fact, I would still argue--that if we have to give money to Sierra Leone, it has to go to a positive list because if not, you can be sure it's going to go to, you know, the pockets of someone else.

**WEBB:** AID [*U.S. Government agency for International Development*] program loans go to positive lists, don't they?

**CHAPARRO:** Yes, yes. They go to positive lists.

And of course there is a lot of interesting argumentation that is correct, too, from a macroeconomic point of view, that actually, you know, once this money--it's a question of . . .

**KAPUR:** Fungibility.

**CHAPARRO:** That's right, of fungibility. The problem is that the reality in a country that is totally broke is that fungibility is very different than India in which no matter how much one pumps in, one is still working at the margin, that when you're working in cases in which we became--we and our donors--became 70 or 80 percent of all the capital requirements in a country, then the fungibility argument is irrelevant because by that time, hell! And if you're giving a free check, then my God! They can do whatever they want with it! There is where the problem starts arising.

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But of course—but anyway, this is the evolution came through that. The evolution came, that we were reactive, we were told by the G-7, “Okay, now we've got to do something about this, getting rid of this debt problem” and therefore all the movement came in for giving money to the Bank to be able to do something about this, and gradually got into this.

I think that there is a lot of good intentions, genuine good intentions. Like I have a tremendous admiration for [Edward V.K. “Kim”] Jaycox, his capacity to mobilize the SPA. And it is worthwhile if you take a look at the SPA. The SPA is the Special Program for Africa, which you know authorized billions! And I think to a large extent that is also the convincing capacity of the Bank and of Jaycox.

**KAPUR:** Right. The SPA was, when, '86 or . . .

**CHAPARRO:** That's right. Something around there.

**KAPUR:** Was authorized--because between the IDA [*International Development Association*], and when the IDA was less, and he [both speaking at once]

**CHAPARRO:** Exactly. And remember, SPA is all cash. You see, this is a key feature of the SPA. This is not project co-financing. This is not to build schools or hospitals. SPA is cold cash. It's co-financing to be able to do a structural adjustment, which means free checks--which many bilaterals never became free checks, by the way. If you take a look at the way that the French, who are big in this SAL business, you know that they don't—they do even a second-degree follow-up to the money. What that means is that they disburse a tranche of a SAL. Then they tell the government, “We want to see what you're going to do with that. What are you going to do with that? We want that paid to French . . .”

**KAPUR:** Banks.

**CHAPARRO:** No, no. That's second degree. First you pay the debts that you have to French citizens in your country. That's first degree. Second degree, “We want to make sure that of all that money that was paid to these guys, those French citizens bank in French banks!”

**WEBB:** No.

**CHAPARRO:** So you see, it's a second-degree. It's fascinating. So they send these missions which spend more time in this engineering of following the check. So these were literally checks which were sent, not cashed, because the checks sort of saying, “Okay, you, I give you the cash here. But then you issue a check which is endorsed by the next guy.” So a lot--and even today that's how most of the French SAL money is done. So they spend much more time in where the money is going than in the substance of what this or that is supposed to be our role.

So the SPA in many ways-- I honestly believe, because I know him quite well and have discussed many times with him, that Kim really, really believed that the . .

**KAPUR:** The commissioner?

**CHAPARRO:** Yes, he is. And one must say in a macro sense that, having seen a lot of this money disappear in not very--it has had an effect. And one can macroeconomically argue very convincingly that in the end those countries, as much as these programs were imperfect, the ones who were doing adjustments were better off than the ones that were not doing, and over time those--one could say that that money is creating more growth.

**KAPUR:** Right.

**CHAPARRO:** But what one could argue is that one could not have done the same thing with . . .

**KAPUR:** With much less money

**CHAPARRO:** . . . much less money and much more effectively.

**KAPUR:** But I'm sort of, because the whole historical buildup, the debt and how the Bank, you know, reacted or steered or whatever itself, was basically Latin America because in a sense, although the . .

**CHAPARRO:** Sure.

**KAPUR:** . . . acuteness of the crisis was more in Africa, but--I mean the intensity--but the real sums of money and [both speaking at once] worried was really in Latin America. But the Bank's SAL involvement and perhaps its--well, I don't want to say its Waterloo--but where it's been a much more difficult issue has been Africa. So in a sense the debt issue and the SAL issue were not necessarily . . .

**CHAPARRO:** Well, look--yes and no. Well, first, the SAL issue--the Bank, there were a couple of Bank countries in Africa, and that's why Ivory Coast became very remarkable, in a sense, because Ivory Coast in a sense became the example of how history could catch up with you very quickly because if in your disbursements, if the returns on your disbursements were not higher than the interest that was accruing, you're going to get in trouble. And that's what happened in Ivory Coast. It was not very complicated, what happened in Ivory Coast. In Ivory Coast you start disbursing massive amounts of money which had 7, 8 percent interest rates, and the country is growing at zero, it's--arithmetically it's going to get in trouble.

But then, you know, you take the case of Latin America. You know, we still give a lot of money to the Brazils, to the Argentinas. You know, if you look at the--the thing in Latin America is that the relative exposure vis-a-vis with this country is smaller than an Africa country, but still a lot of money went to Latin America for, you know, SAL money.

**WEBB:** Do you think the first SALs were motivated to some extent by Bank's concern over arrears?

**CHAPARRO:** No.

**WEBB:** The SALs? No?

**CHAPARRO:** No, that came later. That came later because that came—see, that only became an issue in those countries where our—where the debt service had become so big that . .

**KAPUR:** And the Bank's share . .

**CHAPARRO:** That's right. [all speaking at once] And again Ivory Coast shines up again . .

**KAPUR:** Right.

**CHAPARRO:** . . as one of those cases in which one could consider defensive lending.

**WEBB:** We're talking about early SALs, '83, '84?

**CHAPARRO:** Were to countries where we were still in a position, where our net disbursements were so large and our net transfers, that that issue was not an issue.

**WEBB:** '83, '84?

**CHAPARRO:** '83, '84. And even until . .

**WEBB:** '85?

**CHAPARRO:** Oh, we're talking here until the late '80s. I mean, the issue of negative net transfer only appears in the late '80s. And then it becomes dramatically, becoming very large. Then it starts becoming very large. And then, for example, even in countries--in the early '80s there was a lot of concern about countries which were very large in the Bank portfolio. So, for example, Brazil was a case in which the interest payments of Brazil were--and this is an interesting ratio, by the way--was what ratio were the interest payments of Brazil to the total Bank income? You see what I mean. That's what we live out of.

**WEBB:** Yeah.

**CHAPARRO:** And that was strategically dangerous for the Bank at that moment. The problems were very different at that moment.

**KAPUR:** That's the reason one sees in the files that even though there were differences of Brazil on the policy, there was not much of a movement in the case of Brazil, but they agreed to keep net transfers at sort of about zero, so the amount of cost to the Bank were about *[inaudible]*

**CHAPARRO:** My understanding on this--because I got very interested in the topic when I was working with Ivory Coast--and my understanding which I think is a very wise policy was that project lending had to have net transfers at zero so that you

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would not become, you would not fall into the problem of Cote d'Ivoire, you see, because if you could find--and a country like Brazil, there is enough money you can put things into, projects--because if you did not, then you get into this problem. So that allowed, I think, the Brazil relationship to be more healthy for the Bank because, you know, if we did not do any structural adjustment lending, you know, we could--that is why, if you remember, or as you may find out, that two years ago we got into a big fight with Brazil on power projects.

**KAPUR:** Right.

**CHAPARRO:** Now, that got us into problems. And here I'm talking really second-hand, but it's analytically interesting because it got us—because my god if all of a sudden we were going to find ourselves with project disagreements in very large sectors, that could bring us into a situation of negative net disbursement to a country of that size which would therefore put us into a situation which was dangerous. So there was a perfectly understandable, I think--but so--but I think that the policy followed with Brazil was very, very strategic and very, I think, sane in terms that we would never allow ourselves to get into a situation to your question had to come up. The question I think, to the best of my knowledge, has come up only very big-ly in the case of Cote d'Ivoire.

It came up—in fact, I mean I sort of have a history of getting involved until these things improve—because you remember the first case of nonpayment to the Bank, historically, in which the Bank agonized, was Chile.

**KAPUR:** That was around . . .

**CHAPARRO:** That was 1969 and '70.

**KAPUR:** [*Salvador I.*] Allende.

**CHAPARRO:** That was Allende. And there was a very interesting operation concocted that--who was the one that can tell you a lot about this? Talk to [*Carlos N.*] Quijano.

**KAPUR:** Quijano?

**WEBB:** I remember him, yeah.

**CHAPARRO:** You see, this is a very interesting operation. I'm talking to you very freely. I presume that you [all speaking at once] I feel it's important that you really get a . . .

The Bank agonized a lot at the end of the Allende administration because, of course, at the end of the Allende administration the Bank stopped, but the Bank did not--everyone was saying the Bank stopped for political reasons, and it really did not. It really was a totally screwed-up policy issue--not political. It was a policy issue, a totally screwed-up policy. So then we got into the issue saying, “Why, then, they don't pay you!” So we got back into arrears. So then we get into this question of saying, “How do we get this thing started?” But there was no experience in this, and there

was a very interesting mission that went down, a large mission, and that put together a project that was never consummated.

**KAPUR:** And there was the coup of [all speaking at once]

**CHAPARRO:** Yes. [all speaking at once]

**WEBB:** Oh, yeah, yeah, yeah.

**CHAPARRO:** And that project--and you have to double-check what I'm telling you because again I'm talking out of memory . .

**WEBB:** [*Robert S.*] McNamara liked to talk about it.

**CHAPARRO:** . . I'm talking out of memory because I was there. I was in that division when this occurred. This was the Chile. The one who was involved in this was Francesco, Francesco Abbate. [both speaking at once]

Look, the loan, as I remember it, the disbursements were pretty much equivalent to the debt service. So that was the first case in which something was tried but was never consummated because the coup came and then everything. So that was the first case, large case.

You know, we had had in the very long history before cases like Czechoslovakia and Cuba, I think. I think Czechoslovakia was expelled, I think it was one of the cases which was expelled--you know that--because they never paid; they stopped paying. I don't know about the legality.

But anyway, aside from these, Chile was a case, and then Peru came up. I mean, basically, the cases which came up large were Peru and Sudan. And in Peru, I mean it was again in agony, and people in the Bank got treated very, very badly--not by the Bank, by the country. I mean, there was the famous mission of [*A. David*] Knox, who went down with a lot of courage, saying—in which the Bank really stood to its guns because it was under the threat of saying, “We're not going to pay you.”

**KAPUR:** Was this in '85, '86?

**CHAPARRO:** More or less. That's right. This is the beginning of the [all speaking at once]

**WEBB:** This must have been '86.

**CHAPARRO:** No, the beginning of [all speaking at once]

**WEBB:** Alain Garcia.

**CHAPARRO:** Yes, Alain Garcia. It was, you know, when he decided “I'm not going to pay anyone. To hell with all you people.” And very courageously David Knox actually did go down. He was, in my understanding, very badly treated, very badly. I mean, he was treated worse than--but to his name, he defended the institution, and

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[*Stanley*] Fischer stood strong, and we did not fall into the *centage* of the defensive lending. [*inaudible*] said, “Give something to these guys,” and we said, “Okay, we’re going to write this thing off” and start accumulating and I think at the peak we reached, what, 800, 900 million of arrears. I think it was 800 million?

**WEBB:** Eight hundred or something [both speaking at once]

**CHAPARRO:** Which, you know, this was, at that time it really stood out in our balance sheet.

And then, of course, was the case of Cote d'Ivoire, but the case of Cote d'Ivoire was-- never came down to a problem of defensive lending.

**KAPUR:** I thought Zambia . .

**CHAPARRO:** Zambia?

**KAPUR:** . . because they used IDA money. [*all talking at once*]

**CHAPARRO:** Zambia was a very interesting case because Zambia is not a Bank country. See, this is what is different.

**KAPUR:** It used to be.

**CHAPARRO:** Right.

**KAPUR:** It used to be Bank, and then they declared it IDA-eligible, and used IDA money to repay IBRD [*International Bank for Reconstruction and Development*] in the same hour and literally the same minute.

**CHAPARRO:** That's correct, my understanding, yes.

**KAPUR:** And then, of course, Zambia defaulted six months later.

**CHAPARRO:** On IDA.

**KAPUR:** Yes.

**CHAPARRO:** But that's different. I mean, yeah but no, but it makes a big difference for the Bank from a balance sheet—no, a balance sheet point of view makes a huge difference if IDA’s not paying--if you're not paying IDA, you're not paying the Bank. See, if you're not paying the Bank you have to provision. If you're not paying IDA, you don't have to provision for anything. I mean, you know, okay, so you have less resources than IDA.

It's very important, and I fully understand; I fully agree with this, that that is one of the reasons why in many ways because of this per capita thing of IDA, that's why the whole thing becomes very political, political in the sense that it gets decided by the G-7--not political in the *politiquerilla* type of--is that many of the so-called Bank countries should have been IDA countries from long before.

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**KAPUR:** On creditworthiness?

**CHAPARRO:** Yes. But then the Cote d'Ivoire case again is special, and there's where you get the French connection. It's a very special case, very special. But it was not defensive lending. And I do know that this was discussed many times at the highest levels of the Bank, and this issue was always coming up, "Are we doing it or are we not doing it?" And the fact, if you look at the facts ex poste, you could easily make a case that there was defensive lending, but the only thing I can tell you just from my knowledge of working from within, there was not. That was not the overwhelming reason.

**WEBB:** But going back to the SALs, the early SALs, what people are thinking, I guess a part of this was a lot of optimism about the policy leverage that was being bought instead of projects, much greater policy leverage. That was the idea.

**CHAPARRO:** Well, there was optimism. It's a variety of factors. One factor was the disillusion coming from the project side. You see, the movement really was one of saying, "Well, we've got power companies, but, for God's sake, you set up all these nice power companies but then the government's got this totally screwed up policy scenario. They never increase tariffs. So the problem is increasing tariffs. We cannot continue arguing from the company point of view. There's a more serious problem." And this reasoning was totally correct. So it got into sector policy. But then when we got into sector policy, we got to thinking, "Oh, my God! You really can't have these projects moving when you have exchange rates grossly, totally, I mean where the macro minimum balance is way out of whack."

So we get sucked into this. Correctly so, but the problem—and this, we got sucked into it from a negative agenda point of view. What it does become true and what could be considered naive or whatever is that we became very optimistic about the capacity of countries to change out of technical persuasion and not out of deeply felt internal conviction.

**WEBB:** Or sheer need.

**CHAPARRO:** Well, no. We thought, we thought that the sheer need was enough and that our money was going to help the process along.

**WEBB:** But they would have been needier if you hadn't lent.

**CHAPARRO:** Yes.

**WEBB:** Yeah.

**CHAPARRO:** I think it would have been needier if--you see, this is where the esthetics of development come in because the period of structural adjustment lending clearly allowed countries which otherwise would have collapsed, a la Peru, not to collapse and to maybe, you know, muddle along. Now, one can argue and say, "Well, it would have been best to let them collapse a la Peru and then pick up the pieces." Or the ongoing, I think, intrinsic deep thinking at that moment is that we have to avoid

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the Perus at all costs. History does not--we're not in 1860 anymore, so we're not simply going to see countries go down and then you send in the creditors to pick up the pieces. This you can't do anymore. So--and there was tremendous optimism--this is typical Bank--tremendous optimism about the sheer power of good ideas, of sheer--no, not good ideas, of technical conviction. We missed a lot of things.

And again I come back to probably an example of the case of Peru, because that is a country which Richard knows well. I think that there we also were convinced that when we had a good technical case, a good mission, and that we have an alliance with a few good people in the country, we tended therefore to gravitate to those who believed like us, which was a mistake, and therefore come back and say, "Look, we've got ourselves a deal" because look, we go, we sit there, they believe it, we sign it, we all come happily to Washington, we sign a deal, and then these poor people would go back and then face a reality which was totally unconvinced of this. And we made no effort at the political dimensions of this which were now working very differently, very differently, because you really realize that the real test of this is that there must be some really powerful convinced political force in the country for structural adjustment to work. So either you have a Salinas structure, Mexico, in which the guy is--or a [Boris N.] Yeltsin—all out, saying, "Okay, you guys, we're going to do it," and therefore the role of the Bank and its technicians is basically to get on this moving, rapidly moving wagon and help it get to the other side because if we don't help it, it's going to collapse. Then it may work.

But that's not what we did in the early years of the SALs. That's not what we did in Africa, and in many ways that's not what we did in Peru, because what we found is saying, "Look, in fact the top dignitaries were not convinced of this. The deep, you know, soapbox opera guys were not convinced of it. So the only guys that were convinced were us and our friends!" But as many as there were there, you know, this was not enough to get it across. So we didn't really talk to industrialists. We never really thought, Chinese-style, of creating a major constituency amongst the peasants.

I learned a lot from the Chinese experience which, you know, we never thought in these terms, strategic terms, that the coup, I find, of Zhou Enlai and of Deng [Xiaoping], saying--which was a mistake of [Mikhail S.] Gorbachev. You know, we are Gorbachev types. We say, "Look, first we've got to find out who is going to be winners quickly. Then we have a lot of winners. Then we're going to hit the other guys." So, of course, that's why they start by privatizing farming, and goodness! In five years you have 800 million peasants which are doing well. And even then they turn around against the bureaucrats and they lost. Therefore Tiananmen Square. But the process had an irreversible, which you cannot touch the peasants anymore. So the Chinese thing could not be reversed, which was not the case what we did.

For example, when we go back in Peru, because I lived through that. I made the mistakes, so I can talk a little bit with more—and, you know, we were all talking about all these expert--all things that were true. But since we could not deliver the winners fast enough, all we had were a bunch of losers. And then we found ourselves with all these losers and saying, "Yeah, but we have the good ideas." But the political leaders were not really convinced, and we only had losers.

And this is the same thing we've had in the African context, which has led me now to really say, "Look, I'm requiring now that in every structural adjustment program that we put together we start by a table of winners and losers." Yes. And I want to work very hard at saying, "Bias the content of that program towards the winners." We need--and I was this morning in a meeting arguing this out with the operational people, saying, "Look, if we're going to be able to liberalize an economy, the main role that I see for an IFC [*International Finance Corporation*] is that you have to help us to quickly put entrepreneurial packages with those entrepreneurs which are the people of the future, not the entrepreneurs then because those probably are going to die because that's exactly what structural adjustment is supposed to be doing. It is in fact changing the relative--but we better put an alliance very quickly for those 800 million peasants the Chinese did." We didn't do all this. Our alliance was with the technocrats. It was 3:00 in the morning, 9:00 to 3:00 a.m. meetings in the ministry of finance or the central bank in which all this was hush-hush, ironed out, and then everyone rushed to Washington, tremendous effort at convincing our Loan Committee--that was our client--and our Board [*of Executive Directors*], and then, whew, then the thing would be given to the minister of finance and say, "Now, mi amigo, do it!" And this poor guy, in many ways just as naive as we were, then would have tremendous difficulty selling it.

**WEBB:** You're talking in '82, '83?

**CHAPARRO:** Yes. Yes, '82, '83. Let's say, the first wave of Latin American failures and the first wave of African failures.

**KAPUR:** Do you think it sort of . . .

**CHAPARRO:** I would put Philippines, by the way, in the same package.

**KAPUR:** Do you think, especially as you look at the Bank in the '80s, then a little bit of looking at the Bank as an institution, the sociology of the institution, the backgrounds of people, one is--in this whole SAL episode one of the things which one sees is, one, of course the sheer dominance of the economists, whose political sense grew but was not again, as you said, the power of technical packages was taken as a given rather than discovering its limitations that were discovered with time. But one has a sense of SALs, I mean if development is sort of, quote, social engineering, in a sense, SALs were really in some ways much more wrenching, you know really attempting to change that. And here one often sees a lot of people whose knowledge of the country, the society, you know, sort of may be limited. Did that make a difference? Well, I guess one can always say, "Yes, it might have."

**CHAPARRO:** Look, you could see it from many points of view. Let's look at the positive sides. The fact that the Bank concentrated so strongly on the technical aspects at first impact, tremendous progress in this state of knowledge in the world of these issues. This tremendous emphasis on the Bank created a market for the [*Jeffrey D.*] Sachs and the [*Rudiger*] Dornbusches of this world. It's very important, because this became a very important science, you see. This wasn't done like this in history in the past, you know. This was done very much by empirical [*inaudible*] That's how Europe did it before.

Then this is very, this question--you put it very nicely--of social engineering, of creating, of how do you create the conditions for the Mexican success? And for me, Mexico is the model of the success of what we wanted to do. And Mexico has capitalized on all this tremendous progress in knowledge, the basic knowledge of how do you do this. So that was first effect number one. Yes, we focused a lot on the surety and the conditions of the--none of the second-best solutions, but *the* solution. So therefore the public of our economists were not those people of the country. The public of our economists were those, the thinking ones, was academia. The operational ones were the local [*inaudible*] The economists were obsessed with having the right documents, the right PFP, the right document that would convince the meaning of those. It was the--that was the--and tremendous ingenuity was placed there. And that's why you find what I think are extremely high quality initiating memorandums.

You know, you can't possibly imagine the amount of intellectual effort that goes into writing one of these initiating memorandums. And particularly at that time it was enormous because this had never been done. And you would hire the best of the best. So it was much to the credit of the Bank.

All of this--we were still living, by the way, on the McNamarian optimism and arrogance, which I in many ways identify with and like because I think that to change history you have to have a certain minimum of arrogance.

**KAPUR:** Of infallibility.

**CHAPARRO:** Yes. You say, "We can do it." American type of optimism, as you put it before: "We can do it, damn it! If we put enough damn money and brains in it, it can be done." Mexico is the proof that it can be done, and Mexico can turn around and be a case which is going to burn history because it has all the conditions for failure. Many of the Asian countries have benefitted, I think, from this tremendous accumulation of know-how that the Bank did on the question of managing social engineering and economic policy.

But in every one of these cases where you find success was that there was one country, one leader out there, or a team of people in that country, which had enough political constituency to say, "Look, I think that this can work. Let's bring it in." So you have the team of the, the [*Augusto J.R.*] Pinochet team in Chile, which--Pinochet doesn't know a thing of economics, but he let these people work. And in each case--and these, of course, took advantage and tremendous dialogue developed immediately, and they learned a lot from the Bank. They benefitted enormously! The Bank did free research for these people. We did it, and we're now doing it in Mexico. We're playing a very good role. So, yes, that was the first major achievement, the progress of science, economic science.

Second, if you want progress, was that we initiated revolutions.

**KAPUR:** Literally, or otherwise?

**CHAPARRO:** Literally. Look, I mean, we started bringing into countries agendas at a much faster pace than history would otherwise have done it. A lot of issues, saying,

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“Look liberalize!” As my president in Colombia now says, and that Colombia now has realized, the only way to break the power of the entrenched feudal elites is liberalization because the only way that you can really do it is if you get a competitor from outside to do it cheaper. You cannot do it through sheer internal political force. You can't because by definition these guys have all the political forces well under control.

So in many countries, yes, we unleashed the unstoppable forces of change, particularly in Africa, and for that we deserve the credit, because although we were unable to control the process of change, although we were unable to be able to see it through, the cat was out of the box. The [Joseph D.] Mobutus of the world could not control it anymore, and in a sense we got into a bizarre, historically totally bizarre situation, that we were advising those people of how to commit hari-kiri.

You see, we were going to--you know, I lived through this. You go to the ministry of industry in Peru, for example, which is a very interesting place where most of the people have Italian names because this was controlled by old industry. So you tell this guy, you say, “Look, mon ami, what we're really telling you is all these industries which are here which basically were set up to take advantage of your protective little games, we want all these dead. We want all you guys to go out of business. We want the new entrepreneur here. We want you guys here sitting here sipping pisco sours. We want to finish that. We want a guy who works, a guy who hustles, you know, and who goes out there to the U.S. and looks for a damned market.”

The guys all saw this as, “This is crazy!”

But this is what we caused. By the time that we were through these tremendous misunderstandings and failed, and they were failed in the short term, SALs, the process had got untangled and I think in many cases became unstoppable.

So you've got some cases in which you had enlightened leadership. I think that the knowledge we developed became very useful. In other cases it took time but, for example, all the knowledge that we have developed now India is using very well. So when you have the opportunity--and India, and what we did maybe good in India working with other [inaudible], but India did it itself, was that it created tremendous investment of forty years in people thinking. So all of a sudden, when a guy comes in that is somewhat independent from the feud of Congress and of the family of the Gandhis and all this and says, “Okay, Singh is playing the same role that [Miguel] de la Madrid played in Mexico or that Pinochet played in Chile.” You know, Pinochet liquidated all the entrenched privileges of the old industrial class, and Chile was totally entrenched in this! I see Singh--they're capitalizing on the knowledge we did, to the extent that maybe we have created so much credibility for this, now we're going to have an increasing number of countries that simply fall into place. So I think that all this was positive, and all this goes further to say that what you're saying is right.

But our mistake was, and our arrogance, is first to think that this could come very quickly--your point, optimism; second, that it was a technical problem and not a political problem. When a staff member was talking to the head of the patronal of the industrial association in any of these countries, it never came through his mind that actually what he had in mind was cutting this guy's throat. He really believed that he

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was going to convince this other guy that really the best thing was to liberalize. Well, this guy, he was doing four hours a day as head of the patronal. The other hours of the day he was exploiting his *rentilla* situation in this country. That, or when you were trying to convince a president that he should close down a serious marketing agency that financed his party and that financed the clientelism that kept him in power, and we were saying, “Well, these people, why don't they understand? They have a technical problem.” So we would come up with the solutions. And this is naive, but it was, “They need more technical assistance!”

So of course the president of the country says, “Yes, yes, send me another technical team.”

“What is it you want?”

“Just send me another”--what the Africans call “toubabs,” you know, sort of these white slaves—“send another.”

“Sure.” So we ended up having as a problem, “Well, these people didn't understand.” This was particularly in Africa, but also Latin America.

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

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

**CHAPARRO:** . . . so every traditional African mister had his toubab or his toubabs who did all the work.

**KAPUR:** In Cote d'Ivoire?

**CHAPARRO:** All over, but particularly Cote d'Ivoire, absolutely.

But the interesting reasoning of this--and this you find also in Latin America--is that, for example, when the technocrats went to *[inaudible]* in Peru, which was falling apart, they said, “These people don't understand. They need technical assistance and finance.” Bullshit! These guys knew exactly what was wrong, but it was a rent-seeking institution. This institution was there to satisfy the rental people. So when the financial manager was not competent, it was not so that a Peruvian could not do it; it was that they wanted it that way.

So what was our solution? We're going condition a project: “Next President of Peru, we want that you to hire Price Waterhouse to give you technical assistance of how to run financial matters.”

They say, “Muy buen idea! Great idea.”

So we hire Price Waterhouse for a million dollars a year. Everyone was happy. Price Waterhouse was happy. And of course they come in, and then three years later we write and say, “Que paso? This is not possible! It didn't work! These people aren't serious. They promised they were going to do it. Look, they didn't do it.”

So the assumption that came in--in this naivete of Bank staff--was either these people are stupid--and some people really believed that they were; they fell in the trap--or others is that these people are a bunch of crooks. And I say neither of these two things were right because what you find out today in a country like France--you know how the political parties are financed in France? You know, really?

**KAPUR:** Through . . .

**CHAPARRO:** Sure, through Africa. You knew this, didn't you?

**WEBB:** I had no idea.

**KAPUR:** They told us, the author of [*inaudible*]

**WEBB:** Oh, really?

**CHAPARRO:** This is--sure. Every country needs its PACs. So the U.S. invented PACs. You know what a PAC is? A political action committee, which raises money. Sure. This is the legalized way of pumping corruption into the system. Now, the Italians are falling apart because now they have the biggest scandal in Italian history. They call it there--the Italians are the most interesting people--the tangents, the *tangenti*. I was there last week, and everyone was talking. They are about to put half of the country in jail because everyone [all speaking at once] You know why it's called a tangent? Because this is--a tangent is what you have to put right on the tangent to make an operation viable. You pay some money. So a *tangenti*, but the *tangenti* are billions of dollars. And all this money is not necessarily going into people's pockets; it's going to finance politics. You know?

**WEBB:** Very like the Japanese.

**CHAPARRO:** Purely like the Japanese, and Mr. [*Toshiki*] Kaifu got fired because Mr. Kaifu wanted to modernize. He was one of us. He wanted to tell the Liberal Democratic Party in Japan, "Look, the second richest country in the world cannot continue with this type of feudal financing of politics."

So they fired him. They said, "What do you mean, we're not going to--you know, this is the way our system works."

And mister . . .

So we never, never--because we always say, "Oh, that's politics! We don't get involved in that. We don't look."

That's why this issue of governance has become so much mature for the Bank because the question is that when people were doing this was not because they were crooks--sure, they were doing crooked things, and I'm not saying that this is condoned--but they were doing it out of political survival. You know, the clienteliste system of politics that exists all over Africa, and that existed in Latin America for a long time, and that basically what structural adjustment tries to do is to liquidate that. That's what it does.

**WEBB:** Well, it's how England used to be.

**CHAPARRO:** Sure, sure. I mean, basically, that's why--what I feel very enthusiastic in what I'm doing--and I really like what I'm doing--is that I think we're trying to cut history. You may find that what I'm saying is the ultimate of arrogance, but I really think so. I think our naivete has been to think that this can be done like the cookie jar factory in which you say, "Okay. One more structural adjustment. *Una mas!*" [whistles] It comes in, okay. Let's say with four years this guy is going to be rising at 5 percent, more equity, everything is fine. This is the McNamarian naivete, which I have felt, and we all fell in.

The reality, which I keep telling all my friends in Africa now, I feel very optimistic about Africa because in Africa we have now *declenche* a process of change which is unstoppable. My allies are *BBC* and *RFI* communications. I think it's unstoppable, but unstoppable means that we're going to have coup d'etats. We're going to have Liberias that are gonna be--and not one--more. I mean, Yugoslavia is the Liberia of the Balkans.

**KAPUR:** Somalia.

**CHAPARRO:** Somalias. But we should not get sort of totally [gasp] surprised and say, "What went wrong with"—because this is the process of change. But we're having, in a period of thirty, forty years max, 2,000 years of European history. And when you look at European history today, *c'est pas fini* because, look, it's not *c'est pas fini* in Eastern Europe. Things are apparently are starting to really, really break apart it seems in Italy, really. I mean, they need some type of constitutional change because the country is paralyzed.

**KAPUR:** There are ten percent debts . . .

**CHAPARRO:** Sure, no. So the process of structural adjustment, which in Italy, by the way, worked very well through the process of European structural adjustment and that way. But it was not out of bribing. See, that's like Guido Carli, which is someone I've learned a lot from; Guido Carli was the governor of the central bank of Italy and then minister of finance. He believes a lot in Maastricht and all-Europe. He is the one who has forced the structural adjustment in Italy but not through a process of saying, "If you do it, I'll give you a SAL." It has been a process of saying, "Do you want to be European? You know, the goody stuff? Then you'd better do it because if not, we're going to throw you out."

Which is one of my main contentions, that another one of our mistakes is that we--again McNamarian, highly influenced by the Swedes and by all the Protestant ethic of the Bank, and this is very fundamental--we believed that you could really make structural adjustment by scaring people, by telling them, you know, "You've got to do it because it should be done, and if you don't do it, I won't give you the money!" We never believed--never--on the psychology of success and the psychology of--which again, coming back to the Chinese, the Chinese telling me now and this I learned a lot about this--and one of the things that the Chinese have used more successfully in their cajoling is pure ethnic rivalry, in which they gone out with all the Mandarins in China

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and said, "Look, the Japanese are doing so well. We've always known that the Japanese, you've got to keep an eye on these guys, huh? But now the Koreans! The Thais! You mean that these people who forever we've considered inferior are going ahead of us? There's something wrong in the way we're doing it!" And it works. But it was the psychology of success, of saying, "We can succeed."

And what, for example, now in the Ghana Nigeria group, [Edwin R.] Lim--China experience--is coming up with what he calls the high-growth strategy. He's basically going to the Ghanians and telling them, "Look, you guys are missing the boat. I'm not coming to tell you here that unless you do this I give you fifty million dollars. What I'm telling you is that you guys should be growing at least ten percent, and if you're not doing it, you're really being stupid because other countries, who are not as good as you are, are doing it!" Now, that we never did. And that's another one of those sort of characteristics which I think comes out from the psyche of the institution. We are a WASP [*white Anglo-Saxon Protestant*] institution. This is a Protestant--look, many of the facets--the Bank doesn't like to finance breweries. God forbid! Services? God forbid! The Bank got out of tourism.

**KAPUR:** It leads to prostitution!

**CHAPARRO:** Yeah, tourism.

**KAPUR:** At least, that's what they said!

**CHAPARRO:** Yes, but look! It comes through. I have tremendous difficulty. For example, in the country where I'm sitting now, Senegal, has only one hope. It's services. These guys are a bunch of Lebanese traders, the Senegalese. With tourism they could do all kinds of services things abroad.

No one listens in the Bank. They say, "What is the resource base?"

I say, "They don't have a resource base; they have people." Can you imagine if Hong Kong was worrying about its resource base? Or Japan? But the Bank insists on working on resource base because this is the McNamarian view, the Malthusian view.

We are so--if you want--intellectually driven by linearity, sort of between Protestantism and linearity, we fall into the Club Rome syndrome all the time. We are tremendous--we don't trust technology; we don't like it. We don't like lateral changes, no, and the Bank has never supported them. And that's why you'd read every economic report--take a look at every economic report. We have never done what *The Economist* does, which is sort of take jumps, leaps of faith, of saying, "If these guys really got organized, they could do it."

Look up the reports that we wrote on Korea in the late '40s. We keep writing of all these tigers is that we take a linear approach because we say, "Now, look. Can these guys"--and we come to the conclusion, "No, they can't do it." And even if you take a look at what we write of Brazil today, we're gloomy on Brazil for many years. You have to be crazy to be gloomy on Brazil! You know, Brazil—I think the best description of Brazil I saw was *The Economist* several months ago which said, "Drunk, but not sick."

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But we don't reason like that. And I'm using this because this is to understand that this is another one of our characteristics: we don't like to get into success strategies, into sort of a vision of saying, "Look," which is what the EC [*European Community*] has succeeded to do in forcing the chaotic cases to get on line, the Portugals. They've not succeeded in Greece, but they've succeeded in the other ones. We don't believe in this strategy and therefore our structural adjustment thing was based on technical excellence and the conviction of technical excellence and moral commitment.

And so we will go around and tell these presidents, "We want you to be more committed."

And the guy would tell us, "Of course, yes. Yes!"

So all our vice presidents would come back and say, "I convinced them! You know, they're all on board!" So everyone will applaud, we'll go to the Loan Committee, and off we go.

And then, boom! After the first tranche and everything, we say, "What happened? You know these people aren't serious!" And it's because we have missed all these other dynamics of what makes social engineering. We never recognized that that was our business, and it is. I mean, it is. And I'm saying it with a lot of--we're trying to cut history. We're trying to avoid that Africa spends a thousand years. You know, Latin America was independent in 1820, and the first 120 years of Latin American history, as you have written--and as your friend in Princeton wrote so well . . .

**WEBB:** Shane?

**CHAPARRO:** Shane Hunt, historian, economic historian--it is a shame. I mean, Latin American history is shameful, all the countries, you know, either killing all the Indians (my country) or the local indigenous people or the most catastrophic management in which, you know, we would be recolonized by banks every few years. You know, people would come in to collect their bonds. This is the history of--we're trying that Africa goes through this but quickly, quickly!

And I think it's a worthwhile cause, but we are not--the instruments we have, have not been designed to deal in this. And therefore we're always disillusioned, and we always have this evaluation that we want Liberia to become Mexico. And Liberia is not going to become a Mexico. You know, Liberia is a nonentity. Liberia maybe one day, like Yugoslavia, will become something. You can see this. And we still have the thing that if one day General [*Charles*] Taylor or whoever gets in there and calls the Bank, we're going to send down a mission, an economic team, to come up with a PFP . . .

**KAPUR:** [*inaudible*]

**CHAPARRO:** . . . and a SAL.

**KAPUR:** Are you going to be very serious?

**CHAPARRO:** Are we going to do it?

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**KAPUR:** Yeah.

**CHAPARRO:** Et voila! And we're probably going to do it with Iran, too.

**KAPUR:** The first . . .

**CHAPARRO:** We've not been able to get out of this. That's what I find that . . .

**WEBB:** May I be a sort of devil's advocate? One thing that really impresses me dealing with the Bank, I have the sense that the Bank is always seeing where it didn't get the formula right before.

**CHAPARRO:** Yes. Yes.

**WEBB:** But it always has the sense that, "But now we finally have the formula!" Now, that's one thing.

The other thing that I, when I think of Africa, you say the Bank and the consortium led by the Bank is applying 100 percent of the investment budgets even of government budgets of some countries.

**CHAPARRO:** Oh, in some cases more than . . .

**WEBB:** Over . .

**CHAPARRO:** We're paying salaries. Yeah.

**WEBB:** And more and more getting drawn into that—"Well, before we just gave them money, but we didn't help them. We didn't teach the great institutions. Now we have to go in and--but now we realize, and now we're going to go in and hold their hands, as it were." I think of an American Indian reservation as a possible model for a disaster. Do you ever see it that way?

**CHAPARRO:** Look, look. I think that you're absolutely right. I must say that I find some individuals in the Bank have understood this very well.

**WEBB:** Have?

**CHAPARRO:** Yes. And have tried to be . . .

**WEBB:** Who?

**CHAPARRO:** [*Caio K.*] Koch-Weser.

**WEBB:** Really.

**CHAPARRO:** Koch-Weser was director of the department, the department of Africa. I don't think he really lost sleep because Sierra Leone and Liberia were going to hell, and I think that that was the right attitude because the problem is that in way

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too many cases the performance under which a director gets held is saying, “How are your countries doing?” So if you don't have programs in every country, then you're not a good director. And that's catastrophic. That's the problem, because you have a natural incentive to show action.

**KAPUR:** Or band-aids.

**CHAPARRO:** And action is that you must be doing something.

**KAPUR:** It's a band-aid.

**CHAPARRO:** Yes, and that's very bad. Now, because maybe I consider myself a contrarian, I find that that is changing. And I think that there is a--we have two types of directors. I think some who are genuinely, like Koch-Weser, are trying to be like that, but we have a lot of career directors who simply want to show medals, and medals go with saying, “I signed a SAL with this impossible country,” and that's very dangerous. You see, that's very dangerous because you start linking career success. I find that this is extremely important, something that the Bank has never been able to solve in personnel.

**WEBB:** Country activity is . . .

**CHAPARRO:** And career incentives. If you link the success of career to the level of activity that you're doing, you inevitably are going to get this. And we do that. You never are going to get it because, you know, people become very ambitious in this place--in any place, no, no, let's not--in any institution people become career-oriented. In fact, we are probably better than many of the other ones. In fact we're amazingly have not reacted people to these incentives. But this is--take a look at our monitoring. How does a vice president monitor a department? “Where are your projects? What happened to your SALs? You do your SALs, or I'll cut your budget.” That's exactly how it occurs.

**KAPUR:** So you don't think the Bank has changed [both speaking at once] on this question?

**CHAPARRO:** It has but not enough.

**KAPUR:** Not in the sense of change—now you think it's change for the positive. [both speaking at once] One picks up signals quite often . .

**CHAPARRO:** Look, I'm not sure if there really has—if it's a change. I'm not sure. I think we've--let me put it--I think we've had change from both ways, but you're probably right, that the change may have been for the worst. But the main point I'm trying to drive across is that the basic reason for this happening has not been removed. No one has been able to come up with a real quality performance indicator for staff. You have to. You have to. See, you would have to come up in saying—Koch-Weser is the real exception; that's why I like to use him as an example. But I dread those guys now working in Eastern Europe. I see the Eastern Europe thing [all speaking at once]

**KAPUR:** Koch-Weser . .

**CHAPARRO:** No, he's not in Eastern Europe.

**KAPUR:** No, but he might be losing sleep after his trip last week to Algeria, and given what happened [both speaking at once]

**CHAPARRO:** Of course, he's been put now in a mined ground because he's got all these kinds of countries which . . .

**KAPUR:** In Algeria after the President [*Mohammad Boudiaf*] was killed this morning.

**CHAPARRO:** He was killed this morning!

**KAPUR:** Assassinated. And that is a time bomb.

**CHAPARRO:** Sure. But I think where he has--I like him a lot—is that he is able to disconnect from--let me put it, I don't think he takes himself too seriously.

**KAPUR:** Right

*[Interruption]*

**CHAPARRO:** I have to go.

**KAPUR:** [both speaking at once] a few more minutes, about half an hour, maybe?

**CHAPARRO:** But he's rare; he doesn't take himself too seriously. But if you take a look at all the directors now, they take themselves very seriously and therefore they see themselves in their empire--and they see them as empires; they're feudal barons, these guys—you know, they have to be a success. And that is a problem. You see, I would find a very successful--the only way that I would see success is you take away any hierarchy relationship to size of staff, size of budget, number of projects to your relative reputation of performance. We are not an institution to sell money. We are not an institution to move projects. Until that is the case, inevitably this is going to happen; it has to.

**WEBB:** Actually, I guess this is basically internal career . . .

**CHAPARRO:** But it's very important.

**WEBB:** But it's becoming increasingly externally driven, isn't it?

**CHAPARRO:** In what sense?

**WEBB:** In the sense that there must be—there's more and more media and political pressure on the Bank . .

**CHAPARRO:** Yes.

**WEBB:** . . . to be present, to appear to be doing things.

**CHAPARRO:** Yes, but that is the lack of leadership within the institution in establishing priorities [all speaking at once]

**KAPUR:** Draw boundaries.

**CHAPARRO:** Establishing priorities, that is what is lost since the McNamara years. We never recovered it. We've been a follower, so therefore we react to all these things in a reactive mode.

**KAPUR:** I mean, my sense, having talked to a lot of people, I mean if you have a project and which makes--I'm probably absolutely wrong, one less sanguine—is that the younger people take it more seriously than the older people, which means that if you're looking down the line . . .

**CHAPARRO:** Very serious.

**KAPUR:** . . . but maybe I'm not sure if it's a matter of age [both speaking at once] or if it's . . .

**CHAPARRO:** No, no, no. I think that I have a very fundamental concern that the young YPs [*young professionals*] that I see coming in now are not idealistic at all . . .

**KAPUR:** Exactly.

**CHAPARRO:** . . . and that is sad and a tremendous concern because the YP group that I came in with, in my generation of YPs, there was a real, profound idealism. Maybe there was an arrogance that comes with that idealism, saying, you know, “We can do it! We're going to help the world!” The new ones are not like that. We're hiring professionals. We are hiring them much older. We're hiring a lot more hard-core professionals. You know, we don't hire anymore the wild ones. We would not hire a Kim Jaycox because--you know, Kim Jaycox, when he was hired, he just came back from a foot—you know, he hitchhiked through Africa.

**WEBB:** I didn't know that!

**CHAPARRO:** Oh, that's right! This guy knows Africa better than anyone else. He got in Cairo and hitchhiked by foot all the way to Harare and from Harare to Dakar. This is 25 years ago, you know, but that is character and commitment. The guy really believes in this. He lied, left his family and everything to do this, and then he came back and right from the beginning the guy had vision and ideals of what he wanted to do. I fully agree with you: I think that we are looking for much more cold, very career-oriented, very ambitious. People take very seriously these YPs now, you're absolutely right, and that is a mistake.

**KAPUR:** That's what I saw when I was at Princeton, those who were getting hired as YPs. That's what I was very—because if I am in a situation when I am back in India,

and these are the people who I have to negotiate with, I think I would just throw them out.

**CHAPARRO:** Absolutely.

**KAPUR:** I mean, I'm saying that because these are guys who would cut corners, right. I mean, because I was a TA [*teaching assistant*], you see, so I know who would cheat. I mean, people do that.

**CHAPARRO:** No, no, sure.

**KAPUR:** You see it, and these are the guys . . .

**CHAPARRO:** This is a very, very concerning issue.

**KAPUR:** And that is what I find so . . .

**CHAPARRO:** And you put that guy as the director of the department, and he's not going to do like Koch-Weser.

**KAPUR:** He knows what the signals are.

**CHAPARRO:** He's going to know what the signals are, and he's going to exploit them to the maximum. You see, there's a lot of people in the Bank who are contrarians in my generation. I may be the extreme, but there are many who are contrarians, "contrarians" meaning that regardless of what the incentives say, you do what you think has to be done. *Tant pis, marche pas*. But you sort of think, "Look, I'm reasonably well paid. I like what I'm doing, and I'm okay if I take risks, a lot of risks." Bank staff are becoming risk averse, which goes all the way exactly to what you're saying. People saying, "Is this going to be good for my career?"

I had introduced something which I still do to all my staff--I've never been able to convince personnel of this because they always distort it--is I ask people when they do their annual evaluations, saying, "Where are you going to be in ten years?" And I say, "But don't tell me," because then they'll say, "I want to be a division chief." All of them say that. I say, "That is sad. What is it you really would like to do? What would you like to do with your life now?" Then you really get interesting things that come out.

I had the most interesting case. I had the guy who eight years ago told me, "I want to become a poet." He is a poet now. "Yeah," he said, "but I've got to make a living."

I said, "No problem."

So we worked for him so he could become a consultant. So now he is in the south of Spain at the beach, and he works six months of the year for the Bank. So we trained him to be a professional consultant. Now, that man is very happy, and he's very committed to the Bank because the Bank made something out of him.

Now, that you don't get anymore. You get very little. I mean, the young people are not interested in that; they're interested in the fight.

I'm very concerned. For example, we have monsters as women professionals. We have very few balanced women, and I really--it's a shame for the Bank not having more women executives. But we've created this environment by which the women that come up--my goodness! I mean these are totally—I mean, these are inhuman!

**KAPUR:** Do you targets.

**CHAPARRO:** Yes! These are targets!

**KAPUR:** Women targets and nationality targets.

**CHAPARRO:** Yes. But, you see, but we have not--you worry about this. You say, "Look, if we are going to have nationality targets." It's true, we are such a WASP institution, for example There are some places in which we've made terrible mistakes, and that's why we have unleashed the wrath of God on the other side. We have not succeeded in having any dialogue with a Francophone view of the world or with people who are Steve Jobs types. So therefore we don't have any Frenchmen on the staff, and the only ones who come are dodos.

**KAPUR:** Never tell Guy [*Pfeffermann*] that!

**CHAPARRO:** No, but it's a real problem; no, it's a real problem. So what is the reaction? Now with the right, the French Treasury says, "Wait a minute. Look! We are one of the biggest contributors. How many directors do you have? How many division chiefs? None! None!" So we want to—well, we asked for it because we never were able to say, "Look, what are we going to do to attract some of these freewheeling Frenchmen—or Frenchwomen--who are ready to come here but get out of this mold of the American corporation?" And this is a serious problem. You know, this is a . .

**KAPUR:** The same with Japanese.

**CHAPARRO:** Yes, the same thing. But this goes more and more. You know, try to attract the really good people from your country is very difficult because they say, "For the quality of life you guys have there? No! Look, this is—I have a much better." So we have not, and therefore we are getting more or more uni-dimensional in the type of people who are wanting to come with us. And therefore we are much more prone to follow.

This always gets back to your original point of saying, "Is the incentive structure?" And we have not succeeded in changing this incentive structure. We're making it worse, and [*Lewis T.*] Preston has done it, I think, because Preston is centralizing personnel now and really creating managed careers which means that everyone has to go up. This is the idea for these types of people because then they'll say, "Tell me, what is it I have to do to become a vice president here? I'll do it!" And then you become totally a prostitute of the system, and people don't anymore say, "Well, look, I've got my way of contributing here, which may be different, but it's a contribution"--

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which I must say McNamara was very good at, again. He was very good at having this dynamic of creating an environment in which really success was not number of projects, but success was someone who maybe had the best ideas or had the best--and then those came forward and those were rewarded. That has substantially--we are much more managed like a commercial bank in that sense, and it's dangerous.

**WEBB:** And this is happening at the same time--I think, I'm not sure of this, if you see it this way--that the Bank's job is becoming less of a banker . .

**CHAPARRO:** Absolutely.

**WEBB:** . . more or a diplomat, a deal-maker?

**CHAPARRO:** Absolutely.

**WEBB:** More personal?

**CHAPARRO:** Absolutely.

**WEBB:** You see it that way?

**CHAPARRO:** Oh, absolutely. I see our role--I very much see that the age of the '80s was the age of leverage. That's finished. We're not going to have to leverage anymore simply for financial realities because even if those countries where our net transfers are going to be massive, like Eastern Europe, our relative importance is going to very quickly diminish. So the only thing that we're going to have to sell in the '90s is convincing, is really having the best. You know, convincing the--it's really--in a sense we change the role of telling people what to do, of creating the conditions for people to become convinced that this is the right thing to do. That would jibe with my little role--and, by the way, one of the reasons that I don't want to come back to this place, I think I can be much more useful out in the field is in creating the conditions for the country to deliberate.

And there, for example, I see that the main strength of Bank field presence is to have people who are intellectually very strong, not operators. I'm annulling all roles of Bank resident missions as facilitators of disbursement. I mean, in Egypt today I'm doing exactly the opposite. I'm centralizing all that here because disbursements and all that, that can be done through a satellite. That's much cheaper. What we need down there is people who can interface with a group of industrialists, of peasant farmers, of saying, "Look, let's argue. Let's get organized. Let's argue policy. Let's argue things about how I'm going to get this country to be changed," which is a role which is far away from banking. You're not going to be buying. Money is there. We will be, but you gonna be a deal-maker.

Last week I was two days in Torino, which was a tremendous experience--that's where I saw this--because I have this idea, which Kim likes but the rest of the Bank still thinks that this is too crazy, that in Africa what we should be doing is not a global coalition of politicians. Those meet already. What we need is how are we going to create a dialogue with Nestle, Unilever, you know, with the people who have the money. So I'm creating a global coalition for Africa of private companies.

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**WEBB:** Is that right?

**CHAPARRO:** So I talk to [*Helmut*] Maucher of Nestle, and I'm going to Unilever. And my vision of what the Bank is going to be doing five years from now, it's going to have a consultative group in some very posh place somewhere in the highlands of Kenya in which we're going to get to meet the president of Senegal and [*Ibrahim B.*] Babangida or his equivalent, with the head of Maucher and Preston and Jaycox, and we're going to get the people who really--and let's discuss policy so that the biggest co-financier of Mr. Salinas is not the Bank; it's Nissan. They're the ones that are going to put in two billion dollars to put in an assembly plant to export cars to the U.S. That is his co-financier, the head of Nissan. We are facilitators. We're making this thing happen, but we're not going to be the big bucks for Mexico. So Mexico wants to use us for that, that's what I would like to evolve the Bank into, and I'm working hard from my little--and I'm convinced of this, that this is so that we become a power broker in that sense, that we bring together, so that Mr. Maucher, who is in 35 Africa countries--Nestle is very important--but who is evolving from being 35 protected markets and realizes that he has to evolve too, says, "Well, what would you dialogue with this thing, not as a privilege for you, Nestle? No. What is the environment in which you could really start working in Africa as a major exporter of foodstuffs? And that you become?" And the guy said, "I'm very interested in that. Yes, let's work on that."

So I see three things that I'm putting on the agenda: policy change, privatization of public services, and markets. You know, these companies dominate markets, so I'm going to talk to Mr. [*Luciano*] Benetton. So I'm going to see Benetton because they dominate the clothing markets and say, "Look, you know where to sell. We don't know anything about this."

Reebok--you know, these guys dominate. You know how Reebok works. They don't produce shoes. They design shoes, and then they go around and they bid, "Who wants to do it cheaper?" So Brazil, Thailand, India, Bangladesh, Colombia, but we don't know this. But these are people we should be talking to!

You see, that's why I fully agree that our evolution should be much more into high-powered advice that is credible. We have become much more powerful. I see EDI [*Economic Development Institute*] as becoming a central part of the Bank--central! I'm trying to push the Bank to get into these channels of the CNNs of the future, in which we can really--you know, there's already a development channel being formed which is going to distribute wholesale information. Now, if we could have, instead of doing a WDR [*World Development Report*] which costs us billions of dollars, read by a minute minority, you produce visual information on the realities and the truths of environmental issues, of trade, of what really has happened in liberalization--because there are a lot of myths in this thing--and what are our arguments, the things we believe in. We distribute this through television. Jesus! We're talking real--and we get into the information, that is—and I'm working with Peter Knight.

**WEBB:** No kidding?

**CHAPARRO:** Yes, I'm working with Peter Knight on this thing. But these are the things that I do, and I have a network of people in the Bank who--and we are big believers of the institution so one are working.

**KAPUR:** *[inaudible]* Star TV beamed over Asia.

**CHAPARRO:** Sure, sure.

**KAPUR:** In fact *WDR*—in fact, I just, it's just, incredible. World Bank staff working papers are--you can get them at Princeton. You go to any university in Delhi or Bombay in India or Bangladesh, you'll never see it. These are World Bank staff working papers on Bangladesh.

**CHAPARRO:** This is ridiculous!

**KAPUR:** And this is what—you know, it's a . . .

**CHAPARRO:** It's ridiculous! So my biggest project for ACBF *[African Capacity Building Foundation]*, which I've not been able to convince but I will, is the capacity building

**WEBB:** What is ACBF?

**CHAPARRO:** It is the capacity-building group in Africa--is that I'm making a joint venture of five research institutions in Dakar which together we're going to get a satellite station. And we're going to have a library, joint, which is not really just of books, but I want to interconnect them to all the data banks on key issues in economic research in key centers around the world so that when that guy with a Ph.D. who comes back is not totally isolated, and he starts to capitalize, and that will be a contribution! So I want to do for him what I do already from my office. I've got my All-in-One, and I'm hooked up already to the research departments of the central bank through my office there *[inaudible]* so they can have access to the IMF *[International Monetary Fund]*. This has brought Africa *[whistle]*! You know, that's progress of 300 years with a little investment!

And do you know you cannot sell these projects in the Bank? They have tremendous difficulties. They say, "No, no, no. We're going to deal with the poor. We're going to deal with primary education."

"Ah! Primary education! Sure! Why don't we try to lower the cost of these things?" Why don't we start thinking how we can get an alphabet to go directly into Windows-based graphic type of—and therefore you get Africa to jump. A revolution! They jump the industrial revolution, go straight into--and this is possible! But this is very difficult to get going in the Bank of today.

**KAPUR:** It's very, it's very—I mean, I know from a gentleman I was talking to, a friend of mine who heads this urban--but if he wants anything, he's got no source of materials. And because of the history project I have incredible access to everything, so everything from wetlands to, you know *[all speaking at once]*

**CHAPARRO:** Sure! It's access to information!

**KAPUR:** We want the Bank--you know, if you supply the information, even if you load it on, the incremental costs relative to the Bank operations . . .

**CHAPARRO:** It's minimal, particularly as the costs of communicating around the world are really coming down. And this would be--for example, that is one of those high-leveraged--coming back to the things the Bank could do that it has not done that would accelerate this role of literally fomenting revolutions around the world, it's information. It's information.

I keep saying the ones who have done the political liberalization in Africa are BBC and RFI. The fact that it became totally accessible anywhere in Africa today is—you know, the most isolated guy in Mali can listen to one of these two. The guy can listen to what's going on with his neighbor and think, “Well, why are they there? What's wrong with this group we got here?”

So we could a lot more, in a much more--if we understood that that's what our business is, and a business is not producing sausages, SALs, which are beautiful documents--but look how we can keep doing it wrong. What are the directives coming down now? We're going to do environmental papers on every country, poverty profiles on every country.

So when this came down, I said, “Yes, who's going to—who's the public for this?”

“Ah, the Board.”

I said, “This is sad, sad, because that is not our public.”

Our client is the countries, and the country not in a clientelist sense. It's the success of that country. It's getting things going there. So invent an environmental program--and I told my boss, and she has agreed--I said, “Look. You want? Okay. I'm going to set up there a committee--and I'm going to be only cheerleader; I'm not going to be the manager of it--a committee in the country to prepare environmental assessments. And the same thing on poverty. If they tell me they don't want to do it, then you go tell the Board that that country is not interested in poverty. And then that's their problem.”

Now, of course, a country is not going to say that, but then that is our responsibility and therefore we can move and therefore encourage. So I am stopping all sector work. All sector work. No more sector work. I don't want another industrial sector report on Senegal. I want the country to do a sector report, and I want all those resources, those staff weeks, mobilized to help that country identify the researchers, train the people. Let's even have a lower success rate because of course we're going to give business to the local consultants and the indigenous groups. Let's get a dialogue going with them. Let's set up the possibility that they are interconnected, like you are saying in the research with the outside world, so they can do this same sophisticated analysis that someone can do here.

But this is a major--again, the message is coming from abroad on all that. The message coming from abroad--and Mr. Preston has already given a target after the Rio conference—before the end of FY 93 every country is going to have an environmental profile. Grrr. All the career people in this Bank are targets. “We’re going to be the first ones. So get five—you know, they’ve got priorities. Put guys there to write here environmental.” But who cares what the country? No one says that, but the target is by June '93 we've got an environmental plan, and it must be a well-written document.

Oh, there's a third thing, institutional development profile, an institutional development profile of every country. And this is the problem. And then when we write we say we wrote it for the country, see, as a contribution. What do you mean “for the country as a contribution”?

**KAPUR:** No one is looking at the . .

**CHAPARRO:** And the contribution is going to come from--the role of the Bank should be is not in telling people what to do but in using an intellectual and all the wealth that we have--and we do have a lot of wealth. Contrary to what people think, PRE [*Policy, Research and External Affairs*] and operations--I think PRE has an enormous wealth accumulated, and I work a lot with them. I think that Carl Dahlman's division--that's a division which I think is very interesting. You know, which one that is; that's the industry division, the old Nancy Barry division.

**WEBB:** Yeah, we know him well.

**CHAPARRO:** See that's--make a survey! How many people in operations know Carl Dahlman? I assure you that--I bet a month's salary not more than fifty percent even know who the guy is.

**KAPUR:** I mean, industry, you know, has been abolished as an operating division, entire . .

**CHAPARRO:** But these guys are the ones creating some type of future wealth of knowledge which our countries are very interested in. All these people where I work in Africa, I'm taking them to meet Larry [*Lawrence H.*] Summers, they're very happy. And Michael Walton. Michael Walton has become a very important person for me. But what I'm selling is knowledge. See, I'm not selling, if you want, reports. I'm not selling money.

**KAPUR:** I was talking to this guy whose work has begun in informatics, Nagy Hanna.

**CHAPARRO:** Yes, Nagy Hanna. Yes, very good.

**KAPUR:** And it was very sad.

**CHAPARRO:** That's another contrarian.

**KAPUR:** Right. You know, he's been trying to do an informatics project for India, you know, on district level. SAL is the in thing now for India.

**CHAPARRO:** You see, this is what I find the--I was mentioning all this because it is something almost, it's worthwhile having an analysis of the psyche of the institution. There are some traits that come into this. That's what I'm saying. It's the Protestant ethic, the linearity. [both speaking at once] We are Cassandras. You know, people have the mental buildup, which is very common in engineers, by the way.

**KAPUR:** Really? A high *[inaudible]*

**CHAPARRO:** No, that's very common, linearity.

**KAPUR:** But in engineering, you know, nonlinear equations are the in thing.

**CHAPARRO:** Yes, but this is research engineering. This is not the polytechnique type of engineering.

You see, the polytechnique engineer is the guy who knows how to do roads. And when you tell the guy with the roads, "Blow your mind, man. We're not going to go by road anymore. We're going to go by TGV."

He says, "What's wrong with this guy?"

And when you tell him, "Look, wake up, man. Short distances, airplane is de mode." You know, the railway is coming back at full speed. Anything under 500 kilometers within 50 years is going to be all done by train.

**KAPUR:** But the Bank stopped lending for trains.

**CHAPARRO:** I know! This is--we are always one generation behind!

But this is interesting to analyze, because I think this is part of the psyche at the Bank. Why is it that--and we keep attracting this. Preston is the king of all these. Preston had vision in his business sense, you know, when he got Morgan into investment banking, but he does not come into the Bank trying to see, "Okay, what should be the business of the Bank ten years from now? So let's get organized to do that." It's his question of saying, "How do we do better what we're already doing?" And that's not what we should be doing, I mean because all these realities, the financial realities, are catching up with us.

But I find it interesting to analyze this psychological aspect. And the Kim Jaycoxes of this world--and this may be what you're saying, this is reflected it in all these YPs getting hired, so it may be going further into the Bank. In many ways, *[H. Ross]* Perot, we would love to have Perot as president. [all speaking at once] No, I'm very serious, I'm really very serious.

**KAPUR:** You know what I told you earlier this afternoon about Ross Perot.

**CHAPARRO:** Yes, really. No, you see, this is the--we would . .

**WEBB:** I was going to mention [all speaking at once]

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**CHAPARRO:** I try to hire people who have the profile of a Jobs, but it's very difficult to get them into the Bank, very difficult. The only guy who is interested is Larry Summers.

**KAPUR:** Well, because he knows it's a *[inaudible]*

**CHAPARRO:** Yes, and you know that. And that's why--and that's the politics of this place. Because he is a guy trying—no, he's trying to start a study on Africa which makes a lot of sense, a lot of sense, really saying, “Look, are we really approaching Africa right or not?” And all the people in operations are putting banana peels, all these things--the scandal about the thing is a pure banana peel mounted by insecure staff. That was a stab in his back.

**WEBB:** The memo?

**CHAPARRO:** Yeah, the memo. Because he's dangerous! He's dangerous. He's going to upset the apple cart. Here's a guy who goes to every Loan Committee and sits down there and behaves like *[Pedro-Pablo]* Kuczynski, in Kuczynski style, saying, “What the hell is going on in this place? What is this?” And you see, people who are non-risk-takers, who've got the pecking order well set, this is very upsetting. [all speaking at once]

**KAPUR:** It's a bit like I told you about the reaction to Robert Wade.

**CHAPARRO:** But this is a worry. See, this is, I find, is a fundamental worry. Look at our vice president of personnel. Beautiful man! Beautiful man, but totally scared of nonlinearity, although his father was a major mathematician.

**KAPUR:** Oh, I didn't know that.

**WEBB:** Is that right?

**CHAPARRO:** He grew up with *[Albert]* Einstein. He grew up in Princeton, you know, *[Bilsel]* Alisbah.

*[End Tape 1, Side B]*

*[End of interview]*