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Transcript of interview with

JEAN-MICHEL SEVERINO

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Interview by: William H. Becker and Marie T. Zenni

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BECKER: It's a pleasure to welcome you here, Mr. Severino, for our interview at the main complex of the World Bank Headquarters in Washington, D.C. Today's date is April 12th, 2000, and my name is William Becker. I'm with the Business History Group and the George Washington University.

ZENNI: And I'm Marie Zenni, Task Manager, Bank Oral History Program.

SEVERINO: And I'm Jean-Michel Severino. I was the vice president for East Asia until March 1, 2000. And I arrived in the Bank in April, 1996.

BECKER: To begin our interview, we would like just to ask a few questions about your personal history, if we may. We'd like to start by asking where you were born.

SEVERINO: I was born in Ivory Coast, and that's where I lived for about a dozen years before I went to France as a kid--or nearly as a teenager. I worked in France for many years before I joined the Bank.

BECKER: May I ask if your family was working in Ivory Coast?

SEVERINO: Sure. My father actually spent 45 years of his life working in Africa, not only in Ivory Coast but throughout western Africa and in Ethiopia as well. He was an Italian immigrant, and he migrated as a young boy from Italy to France, then worked in Ethiopia before as a Franco-Italian interpreter at the then Franco-Ethiopian Railways in Addis Ababa before the war. Joined the French forces during the war, which was a big mistake! [Laughter] And after having been through hard times in the war, decided to leave Europe and go back to Africa. And then he was hired by a bank in western Africa and stayed there until he retired.

BECKER: I see. Do you think that your early experiences in Africa had an influence on your choice of career?

SEVERINO: Absolutely. I've always wanted to deal with Africa since I was a small boy. I couldn't imagine that I would have a life that would be far away from Africa. I did everything I could as a teenager, then as a student, to find a way to Africa. I discovered development issues more as a teenager and decided that I would just do that. So I organized everything around that since my very young age.

BECKER: Now you said you moved to France when you were twelve and you then pursued your education there. Which subjects were of most interest to you?

SEVERINO: Surprisingly, after my high school I chose to go to a business school. It was not really a deeply thought choice. It's just that it was the kind of elective choice that you had to make in France at that time, you know, when you were good at school. It was part of the few

things that you could do. I had no appetite for law school or medicine, so I chose to study economics, and at the time the best place you could study economics was in the business school in France. So that's what I did.

BECKER: Were there professors or fellow students who influenced in some way your future career?

SEVERINO: Actually, surprisingly not! [Laughter] But it was during my professional life in the civil service that I discovered people who impressed me considerably and started having a real influence on the way I was looking at things. But all the time I studied, I actually was not quite impressed by the intellectual environment I was in, and it took me quite a long time to find masters.

BECKER: Now, did you find people like that the ENA [Ecole nationale d'administration]?

SEVERINO: More, especially among my colleagues. This was an incredibly high-level group of people, and of course there were people who impressed me considerably.

The only thing I would mention is that during my university years, the people who had a lot of influence on me were the Marxist economists. That was the '70s, the last years of the Marxism dominance over universities. And I was extremely impressed by an economist whose name is Michel Aglietta, who is still one of the best French economists, but he has now changed his own stance. He was an incredibly sophisticated contributor to the debate between Marxism and liberalism. And I remember at that time that I was completely influenced by structuralism by Michel Foucault, and these were really the people who were shining at that time.

BECKER: You were very much influenced by dependence theory?

SEVERINO: No, no. Not much. It was because Samir Amin, and then these were not even at the time that credible and it was so easy to challenge their ideas. It was more the structuralism, the way they applied thinking, their thinking, to the economy and to society that was catching. Even today, I think their contributions remain simply incredible. When today we talk about the influence of the institutions into economics, we refer implicitly to what they have brought into the analysis of the economy. This was more a stream of thinking that was trying to highlight the hidden; going toward the roots of society, psychology, and then people who were really focusing on dominance and class which was already something that was kind of fading away in the total analysis.

BECKER: Did you hear Foucault lecture?

SEVERINO: Yes, yes. But, if the question is about Masters, no, I didn't read Masters, because I didn't feel that I needed personal empathy, and for all sorts of reasons. As human beings I didn't like them that much. Their thinking was, of course, extremely captivating. But Foucault I didn't think was such a great teacher. [Laughter] He was an incredible intellectual. I had a lot of suspicion about his own social involvement. He was gay, and I have nothing against gays, but the way he was making it a kind of political stance was something that was, to me, a little bit

weird. I felt no appeal for the political side of his life. And, in order to understand Masters, you have to be caught, not only by the thinking but also their doing and how they behave in the society. At the time, at the College de France he was extremely formal. So I followed two years of his courses, actually. And this was much more intellectually fascinating, but I couldn't find any human warmth.

BECKER: When you finished your course of studies, what was your first post and what were your responsibilities there?

SEVERINO: I made a choice that was not that opportune for me, which was to choose civil service. And it took me a long time to do it. Nothing in my family prepared me for doing that, actually. My father and my mother were putting much pressure on me to go to the private sector. But being really focused on what to do about development and so forth and having looked around, I discovered that there was little--especially in France at the time--I could do in this area if I didn't enter the civil service. So that's why I went to the National School of Administration with the intention of working there. And in the National School of Administration you have to spend one year in local administrations or in local governments or in embassies. And I was lucky enough to find a position in French Guyana, and I was sent as local administrator in what we call an “arrondissement” of this department, which is called St. Laurent du Maroni. I spent one year in the jungle, because it’s 40,000 square kilometers of jungle. And it was an incredible experience for me, kind of going back to the ‘50s as a kind of colonial administrator. And there was, at that time, nobody else in that part of Amazonia but local tribes--black tribes, Indian tribes, and a few colonizers there.

This is still an experience that I'm living on, in some respects, because it was an experience of a whole society which was, to an extent, against development, or which wanted to preserve its way of living. And the institutional context at the time in that part of the world allowed them to preserve their way of living. To an extent, the entire role of the administration was to try to preserve that way of living. This was a very interesting experience for me because I was coming to that place with ideas that people who were very poor just needed to be helped in getting richer! And, everything I saw during that year just destroyed that idea and awakened me to the fact that development was something much more complex, and there were choices in life. Trying to understand who people were, what was driving them, and what was driving society was really the starting point of everything and care and prudence had to be the bottom line of any action or strategy, as it were.

So this was really, for me, a founding year. Then I had one year of school. I was lucky enough to graduate among the top ranks which allowed me to choose and get into that area at the level that would allow me to contribute. So I chose to go to the Ministry of Finance, to a specific body within the Ministry which is called "the general inspection of finance."

This is where I started to meet my first masters. I'd say the traditional business of this type of body is basically auditing, evaluating the minister of finance, and being a “think tank” available for the government. I was asked to contribute to several evaluation missions on overseas departments--French overseas departments--and also on our policy in Africa. And I then met a man who was general inspector with very senior people, who had also been a colonial

administrator and then had to change his career. He had an absolutely incredible scientific mind and experience on all these development issues. Most of what I learned about policies I learned from him during the four years I spent working intensively with him.

So even if I was in the Ministry of Finance, I actually spent most of my time dealing with development issues during these four or more years, but as an auditor, as an evaluator--or junior auditor and junior evaluator. That was a fantastic learning experience, of course.

BECKER: What was his name?

SEVERINO: Mr. [Jean] Thill. He's still alive. Though retired, he is still contributing and writing. He's one of these people who, after a very active life, has chosen--after his fifties--to be more of an influential player than an operational actor. He was a very discreet advisor to all sorts of people within the civil service. You know, these people who live behind the scene, cannot be seen anywhere but are everywhere at the same time and bring major contributions: that's what he did for the last 15 years. He will probably die unknown! But actually his contribution to development in France has been considerable.

BECKER: Now is four years the normal course after which you would move on to another ministry?

SEVERINO: Yes. I was kicked out of the Ministry of Finance. This is a practice; you have to go. It happened that at that time there was a change in the government. A new minister for Development and Cooperation was appointed in a left-wing government led by Michel Rocard, who was a man I admired tremendously. At the time, the head of my service, the general inspection, introduced me to a few people and to this minister. He took the risk of hiring me as an economic advisor, which was really a big, big risk because I was basically 30 years old and had done really nothing. So I became his economic advisor for one year and a half; after that I headed one of the units in this ministry which was in charge of the economic policy and financial strategy. It was the unit in charge of the structural adjustment financing of the African economies and be in charge of the CFA zone, the central banking, and monetary issues.

BECKER: And how many people worked for you.

SEVERINO: About 50.

BECKER: Did you travel or was this Paris based?

SEVERINO: Extensively. That was the good side of being located in Paris and dealing with Africa, because, first, you know Paris is an African town, not only because so many Africans live there but also so many people who are involved and deeply engaged in Africa also live there, and so many Africans come to Paris. So it was that, even living in Paris, you could not ignore Africa, or if you had an interest in Africa, you could really feel deeply involved. But, on top of that, I traveled extensively. I was spending half my time there, actually in Africa.

That was my third position in that ministry after having been the head of the financial unit. I was appointed director for this position which was the head of all operations, including the macro ones that I led as well as the project ones and the policy ones.

BECKER: What were the major events, crises, and accomplishments that you experienced in your years there as the director of development?

SEVERINO: Well, in the three positions over a period of eight years there were three issues that were constantly on the table and that were my obsession. One, a very political one, was the transition to democracy in Africa. These were very interesting years. At the same time, in France the generation that had organized the de-colonization and set up the system that in many respects was extremely dirty--between France and Africa--were aging and dying one after the other. It was a wonderful opportunity to try to look differently at the political relations between France and Africa.

And, there was a big ideological fight between those who were thinking and trying to maintain these incredible networks of business, political, financial, and military relations between France and Africa, and those who thought that no big changes should intervene and Africa should be allowed more freedom to manage its own business, and especially to build institutions and societies that would be more democratic. Second, it was in this political environment, the end of the cold war, and in 1989 the Berlin wall collapsed. My minister at the time fought like hell to build on this opportunity and change politics. We were very successful in the sense that President [Francois] Mitterrand finally agreed to that and agreed to let go. And he agreed in a series of speeches and meetings with the African leaders that France would not intervene militarily any more to support the dictators, which was a huge break-through, and agreed to support democracy.

That was the beginning of the end not only for many regimes, but for many countries. One of the things that we witnessed after that was the unraveling of the political situation all through Africa. And one of the ultimate consequences of this major change in policy is what's happening in Zaire, Congo and Central Africa. So this democratization policy has its very dark flip side, and at that time I think we were not prepared at all. We were extremely naïve, just seeing the people of Africa being liberated from oppression and being able to build a new economy and a new political life at the same time. Of course, we've been quite disappointed by what has happened and by the collective incapacity, including ours, to help political processes and democratization processes go through without major internal and international conflicts. Many of the turmoil that is taking place now in Africa can be traced back to this major shift in policies that not only France but other countries also adopted at the same time.

The second major event was the economic evolution, and the main issue there was the CFA zone, the monetary zone which links the French Franc and the currencies of the 13 countries in Africa. The big fight was whether this currency--which had been linked through a fixed issue rate to the French Franc from 1945 to 1993--should or shouldn't be devalued. This was a huge ideological, geopolitical, and economic debate that also had a lot of more ancillary and dirty dimensions because the network of interests, political and financial, was so tight between all

these African leaders and African elites and the French political class that all sorts of considerations were taking place.

This is where I really started building stronger links with the Bank and the IMF [International Monetary Fund], because both these institutions were advocating devaluation, which the French and African governments were opposing with the ultimate vigor. And, as an economist, I was deeply convinced that the devaluation should take place. The problem was that neither the Bretton Woods Institutions nor the French government were making it possible. The Bretton Woods institutions, because they definitely had a very narrow way of looking at this issue and were absolutely incapable of encompassing the military, cultural, and security dimensions of what was not a small operation. After all, there were 18 million people who were directly affected by that.

There was absolutely no idea of the complexity and difficulty of the problems, and I still do think that had both France and the African countries really complied to the demands of these institutions, the way they were making it, this would have been a huge disaster. But at the same time, the French political class for many, many years were making it absolutely impossible to enforce. We were trapped into two unreasonable positions. Trying to make the situations evolve was one of my obsessions between 1988 when I started the job and 1993 when, eventually, both on the French and African sides, because the situation had become absolutely untenable, there was an acceptance that devaluation should take place.

The devaluation was my main task from '92 to the time I joined the Bank. Actually, it is because of this issue that I also left the French civil service. Actually, I had been a member at the front office of the left wing minister, but I was appointed director of the ministry by the right wing minister, which is quite unusual, and I was directly linked to the fact that this right wing government was the one which was accepting to prepare the devaluation. I was considered by them as one of the very few people who were prepared to run it on the French side.

But then, after this operation took place, a new election occurred in France and brought into power a very conservative government and president of the republic, Mr. [Jacques] Chirac. The new minister of cooperation and development was the pure incarnation of the old guard. He had [redacted] been a real opponent to devaluation. And he could not admit that this operation was a success. And it was a success. It had been well run, I'm sorry to say so, both on the African and the international side. So this was, roughly speaking, a success if any economic policy can be a success in Africa, given the context of that continent. And admitting that was absolutely impossible for him. Everything he was doing was, to me, 180 degrees the opposite of what, not only I, but the previous ministers and management teams in the foreign affairs and the ministry of finance and cooperation, had tried to do in the past years. His obsession was about stability not democracy, and there could be some grounds for that. But what he meant by stability was going back to the '40s and '50s and reestablishing the colonial rule in this part of the world. When he was thinking about economy, his way of thinking was about protecting French interests--commercial interests--in Africa, not about development of the continent. There was absolutely no way I could find any common grounds in that, so I became absolutely sure that if I did not leave shortly I would just be shot! The only reason why he didn't do it is because I had very strong ties and networks within the civil service and with the political

class, even with the president's staff, so I was very difficult to shoot. [Laughter] But it would have happened eventually; it was a question of time and energy from inside and from him. And just at that time the Bank offered me a position, and I took it happily!

But a third issue which also obsessed me afterwards--besides the political and economical—was the management of the French ODA [official development assistance] system. The French ODA system is one of the most inefficient in the world. France was spending an awful lot of money on ODA. It was one of the major ODA contributors in the world, but also one of the more lousy managers of ODA, not because there aren't people qualified for the system but the system is extremely scattered--divided between many agencies making it incredibly difficult to have an overall vision. This is also a system that was the product of history, a long history, in this area. Lack of adaptation to modem needs, as well as opaqueness and complexity of the system were allowed to take place. So, it was a very convenient system. I should add that this was an area where the lack of outcome was blatant! After I left a reform eventually took place, and now there's a new system in France which is just a slight improvement! Unfortunately, it doesn't bring a real solution to the problems but has started moving in the right direction. I'd left before this took place, so I was not part of it. And I was unfortunately part of a major attempt to completely revamp it. That was completely killed by the last minister that I was working for. This was the additional reason why I left in full disgust, completely fed up after eight years of incredible efforts to try to make a system more coherent and run, without any success.

BECKER: What did you take away from this experience in terms of your thinking about development, and developing issues? How had it evolved from your first experience?

SEVERINO: I think what really struck me throughout these years is that development was a global thing, and there was no such thing as economics alone, politics alone, institutions alone. What the business was about was bringing together societies, institutions, economic policies, and trying to make something out of it in dealing with your partners. This was one of the only satisfactory points in being in the bilateral agency, which was that it allowed you to do that because you were part of a system where your colleagues were from foreign affairs, others were from finance, and so forth, and you had not only the possibility, but you could not escape the institutional damages that were every day in your life.

What I learned besides this globality was a more specific lesson, that the real issue about the shortcomings of development in Africa were about the way societies were structured and organized, the way institutions were not working, and the core focus of ODA should be social engineering, institutional development, and dealing also with cultural dimensions. What was infuriating me about the World Bank and the IMF was exactly this lack of perception of the depth of the problems. The waves of people coming from Washington and preaching the gospel of liberalization to the Africans who had absolutely no choice but to just sit and take it because they badly needed the money and could be bought into all sorts of things that, for some of them, proved to be absolute catastrophes. One thing that--I don't want to say that the truth was on our side as well, because obviously the way France had implemented it through the aid policy was far from being great. But very clearly there was something to be done both on the bilateral and multilateral side about the way ODA should move. This is mainly what I got out of this period in the ministry.

BECKER: Now who at the Bank invited you to come to the Bank?

SEVERINO: Well, the conflict in the Bank was that Jim [James D.] Wolfensohn was desperately trying to add a few Frenchmen in the senior management team of the Bank for reasons that I've never been able to fully understand. France has a reasonable share of the YP (Young Professionals) program and so forth, but I don't know whether it's because they prove to be less good than the others or that they just vanish or go back to France--which I think, by the way, is part of the explanation. But after a few years they basically all disappear. So when you get to the level of division chiefs, the representation of France is already much lower than it should be in terms of normal quota in the institution, and the higher you go the more it is true. So, of course, at the level of VPs [vice presidents], MDs [managing directors], or directors this was very visible.

France protested systematically that it didn't have its fair share of the management of the Bank, and Jim Wolfensohn was open to doing something about it. So he asked Shahid Husain, who was the HR [human resources] VP at the time, to look for French men or women who would like to come at director level in the institution. So they looked for six or seven people, and actually I was the only one among the ones they contacted who was willing to come. For me it was perfect timing. I was thinking actively of what could be the next place for me, and for the Bank I was an acceptable recruit. There was actually no real competition. In practice, nobody was willing to move across the Atlantic and settle here--among the people they had looked into. Then, very quickly, I negotiated with Sven Sandstrom my entering the Bank. They proposed the position in Central Europe, which I was extremely excited about because it was dragging me out of Africa which I was a bit fed up with after all these difficult experiences. Really it was not Africa I was fed up with; it was the French ODA system in Africa, because I've kept my love for this continent and its society. So I thought it would be very good to have other experiences and to look across the world before coming back to Africa.

BECKER: Now, what were your responsibilities for Europe and Central Asia?

SEVERINO: Well, it was a difficult start in the Bank because I had been sold a department which included Bosnia and the Balkans, and this was the most exciting part of it. The year 1996 was the year when the recovery program for Bosnia was really starting, and Kemal Dervis, who was my predecessor, had done a wonderful job of preparing the intervention of the Bank before moving to EMENA [Europe, Middle East and North Africa Region] as vice president. I was extremely excited by that. But three or four days before I left, I was called by Johannes Linn, who was the vice president for Europe, and he told me, "You know, we have had some thoughts, and maybe you could come without taking over Bosnia," which was an incredible way of dealing with a recruitment process. So this was my first experience of the incredible lousy management of people that this institution had. And it was, for me, a kind of trap because I had already moved. I still remember this phone call, sitting in my flat which was already emptied of any furniture, and phone in hand, being told that basically the position I'd been sold was not any more the position I'd been sold! And this was three or four days before I had to take a plane to Washington. Anyway, we finally struck a compromise, and a director for Bosnia was appointed, Christine Wallich, who was supposed to work under me but as a director and I was also a

director. So it was a very uncomfortable situation in which, basically, I was supposed to let Christine Wallich take the blame if something goes wrong. Fortunately, it didn't last too long because the reorganization of the Bank took place nine months later and then I became vice president. My responsibilities were full for the Central European department but for Bosnia, where there was a find of uncertainty about who was exactly in charge and doing what.

BECKER: So what you learned in this period was not a lot about Bosnia but a lot about the Bank?

SEVERINO: Yes. Well, I learned a lot about Central Europe and the transition economy. It was a wonderful learning experience about the Balkans. And, of course, for a European it was a very interesting experience. I had known all these countries as a tourist, but that was a completely different thing.

The key lesson was about the way the Bank managed itself, and not only the kind of very lousy and incapacity of being straight and having straight solutions and even using line authority. But also this was a very troubled period because Johannes Linn had announced that there would be a reorganization. The very interesting thing is that I learned about it a few weeks after arriving in the Bank. That was, of course, for me very unsettling because I had just been sold a position and a few weeks after I arrived I was learning that there will be a reorganization and this position would disappear!

So I was scratching my head and saying, "Now what kind of position it this? Where have I come?" And I even contemplated going back, not really in anger but just because the uncertainly was so much that nobody could tell me in any way what I would do a few months down the line. At that time I was single. I had absolutely no family responsibility, so I was saying, "Maybe I should just go back to France and wait and see there how things turn out." It was a very complicated period, and especially the very lengthy process through which ECA [Europe and Central Asia Region] went in order to prepare for this reorganization was extremely unsettling, not only for me but for everybody on the staff. So it was a very difficult period for everybody in the region.

BECKER: But the result of this is that you moved to be vice president for East Asia and the Pacific. Was that in January '97?

SEVERINO: Yes. I took over this region in February, 1997. And the story is still the same. France had put a lot of pressure on Jim Wolfensohn to hire a French VP. And the French government was pushing a gentleman who, it happened, Jim Wolfensohn just disliked very much and wanted to avoid at all cost having this person imposed on him. And this person, by the way, was not that keen to go to the Bank. It was more the government which was trying to play that game. And I think Jim Wolfensohn had the brilliant idea of saying, "Well, there's a young French civil servant who I've just hired. Why not take him? Of course, he's young for that position with no experience, but after all, East Asia is a calm region. Nothing is happening there. It's a region that's in decline in the Bank, so it's a good position to put a newcomer there." The MDs thought about it and concluded that my first months in the Bank had been quite good, so the risk could be taken.

In December Jim Wolfensohn asked me whether I would do it. I was excited by that. I had a reason to say no because Johannes Linn had proposed to me with the reorganization to go to Moscow as a country director in the field. This was a very exciting thing to do, so I had prepared myself to go to Moscow, and I just had a sudden change in perspective. But I didn't give too much thought about it, and for family reasons, for personal reasons, it was also convenient for me to stay for some time in Washington anyway., so I said, "Yes." And Jim Wolfensohn was extremely happy to tell the French government that he had the French VP and everything was all right. And things calmed down, and the pressure stopped completely. He thought he had played well at that game.

BECKER: Aside from the administrative angle, what were the other issues that you were tackling?

SEVERINO: At that time, the Bank was lending to Asia around 4.5 billion dollars a year, and this is a number that had declined quite a lot over the years. And the real strategic issue for the Bank at that time in Asia was that its traditional clients were all graduating from the Bank. Korea had graduated few years earlier. Malaysia had de facto graduated; Thailand had practically graduated, not officially, but actually our lending volumes were down to nearly nothing. And in Indonesia, we were reaching the exposure limits. And the real issue was the decline of our lending because of exposure reasons. While in China there were a lot of questions about what we should do there and how much we should do and so forth. So the kind of common belief was that there was this region, not only was it understaffed, but the senior management of the region was so that Jim Wolfensohn had decided that the region should over the coming years refocus completely on its poorest countries, Indochina, the Pacific islands, this sort of countries. And, of course, in the future but very far in the future, unfortunately, there would be Burma and North Korea that should come into this portfolio at the same time; both these countries are extremely poor. This is one of the reasons why I thought I was the right man, because my experience was entirely about very poor income countries, and this was probably a good match.

The second big thing the region was thinking about was how it would shape itself in order to accompany private direct investment into these economies. And what everybody was thinking about was private investment in infrastructure and, of course, trying to do something to even increase the incredible amounts of private capital flows that were going into this region. On the managerial side, the region had evolved more and more towards direct investiture lending. What it was doing was very close to what the ADB [Asian Development Bank] was doing, and most of the products were about bridges, roads, railways, and very little if any was being done about health, education, social issues, and institutional development. And, by the way, this was quite coherent with the vision of Asia that was very successful. And it is a region that had it right in terms of the institutions' values. This was the years of the Asian values, and so the role of the Bank was to bring a complement of financing into big projects that these countries could not fund by themselves and where they needed some kind of international experience and help.

This had a consequence in the way this region was running itself. My predecessors, especially my last predecessor, had really a focus that was very much a project-oriented region with a management system that was targeted at bringing internal costs down on an operation-by-

operation basis with very little investment into knowledge and policy. That was very much a kind of private institution management style with the difference, of course, that we were funding governments and big projects. But the spirit was that one.

At the same time, it had been a very successful region in past years. The staff in the region were quite old, experienced, had spent (for most of them) many years--15, 20, 25 years of their life--working in Asia. There was very little cross-fertilization with other parts of the Bank, and there was a kind of a mind-set in this region that here we had it right and the rest of the Bank had it wrong. And this region was seen as extremely closed, separate from the rest of the Bank—and a kind of fiefdom that should not be touched. This region had successfully opposed any attempt from the President and this new management of the Bank to have it reorganized alongside the rest of the institution, the way it was in the matrix, et cetera.

So one of the key messages that Jim Wolfensohn had given me when taking over was, "You know, you've come here to break that! You have to open this region to the rest of the Bank. You have to align it with the rest of the Bank and bring the same values as the rest of the Bank into it." Without, by the way, abandoning the strategy, on which there was no real debate and position. So it was more the managerial style of the region that was challenged by this new management and it was, by the way, the key reason why Marianne Haug, one of the directors of this region, had not been chosen by Jim Wolfensohn as the vice president; she was part of the old regime.

BECKER: Now where did China fit into this? Obviously, China was not a success at that point. Was this a time that the Bank was beginning to become more interested in China?

SEVERINO: No. I think that both Indonesia and China were considered at the time as at least success stories of the Bank's development history. The Bank and the Chinese were both agreeing on the fact that the Bank had played a very important role since the late '70s when Deng Xiaoping took over China. The Bank had played a very important role to open up China, helping it access the lessons of economic policy or more liberal economic policies, and had been very instrumental in helping the Chinese design the transition policies that have progressively transformed economic policy in China.

From the Chinese there was and there still is a lot of recognition for the contribution the Bank has made in financing major infrastructure in China and through this changing the policies. At that same time, questions were starting to be raised—but I would say in a very low-key note—about what was now our role. The Chinese had changed tremendously. The quality of the staff now in China had nothing to do with the quality of the staff 20 years ago. The minister of finance and the key ministers had PhDs and Masters degrees from all the major universities of the world. The quality of the policies in China seem to be, and is still today considered as outstanding given the difficulties and challenges they face, et cetera. And it was very difficult for the Bank to know exactly what we could add now with a client that had become so sophisticated and so strongly in the driver's seat. So that was the policy side and the institutional side.

On the financing side, first, the exposure limits were now closer and closer and, therefore, there was the fear that our lending volumes would decrease sharply soon. But more than that, even

while maintaining the current volumes of lending, there were more and more interpretations about what the Bank could really contribute to in China. After all, three billion dollars of new lending every year to China is peanuts compared to the GDP, compared to the investment volumes in China. I think right now that the investment budget in China is something that I could total at 250 billion dollars a year, so three billion dollars doesn't matter. On top of that, China has huge reserves. The savings rate is absolutely enormous. So there's absolutely no technical economic need of foreign currencies or new borrowing. On top of that, this is a country that has a very conservative, prudent fiscal policy. So it's a country that is very careful in never committing to loading itself with debts. So we knew that there was no exposure limit; the Chinese would remain extremely careful. All these interrogations about what would be our role were not at the core of our discussion with the Chinese nor within the Bank. In the senior management group, as to the real questions about our China strategy, we were still living on our past and glorious history and kind of continuing to automatically replicate what had been our way of doing business in China.

In this respect, the decentralization of our team in China, along with the political problems we have started facing, in many respects have been kind of an end. You know, the need to confront these exposure issues have been triggering events for reviewing the China strategy, something which is not yet finalized but will have to be finalized in the coming couple of years.

BECKER: All of this changed after July of 1997, or I would imagine your work changed. What was the effect of the Asian financial crisis on your responsibility?

SEVERINO: Actually, I had to address two issues at the same time: the reorganization and the Asia crisis.

On July 1, 1997, we completely reshuffled the organization of the region, and not only the region, but the Bank. And on July 2nd the [Thai] baht devalued and things started to happen. From February to July, I devoted all my energy, or 90% of my energy, to the reorganization of the region. This region had, as I said, refused the perspectives of the reorganization, and number one on my mandate was, "Do it, and do it fast!" So that's what I did, and it was a hell of a job to convince the people here in a very short period of time that they had to align themselves with the rest of the institution and move towards a new system which, I must say, they didn't believe in at all in the beginning.

I think I and my colleagues were quite successful in selling the reform to the region, who were less successful in implementing it. [Laughter] But the design, all this preparatory phase, went very well. There were two consequences from that. One is that from February '97 to July nobody in this region paid any attention to what was happening in Asia, neither the staff here in Washington nor the field staff. They were obsessed by what was happening in our own reorganization, which was, by the way, fair because everybody would change position. Careers were at stake. People had absolutely no visibility in what they would do after July. And of course nobody, you know, even imagined that in August, September and so forth we would be facing one of the worst crisis the world had known since 1945 anyway. So nobody was focusing on the substance. There was some thinking on in the strategy, but that was at a very aggregate leve, you know,l and not really looking in depth at the country.

The second consequence was that on July 1, everybody changed position in the management team. And we took a few decisions in June that we dearly paid for afterwards. One was that we would go for deep renewal of our management, because the old one was considered completely discredited within the institution but also within the region. They wanted people with new values. There was a cultural ambition to change the style of management, and this had to be achieved through changing the organization and the people. So the change in organization was about delayering the organization, going towards flat organizations and decentralization. Basically, I was so convinced about it since it matched so well my own vision of the Bank that I'd got from outside that I was seeing this reorganization as the opportunity to really bring something completely new. So de-layering, flattening, and decentralizing were the key words on the organization side.

On the people side, it was not just moving a few boxes around in the organization; it was really completely reinventing the organization. And, the first consequence was that nobody understood any more where they stood, myself included, because I was sitting on top of this completely brand new system that I didn't know how to run and nobody knew how to run. We had, suddenly all our country directors in the field whereas before they were here. We were saying that we have about 20% of our staff in the field; within three years we'll have 50% of our staff in the field. All this was really shaking the organization. At the same time, we were bringing in a lot of new people.

We had decided to have a very flat organization, and in this flat organization we had about ten sector directors. On July 1, we had appointed only about three or four of them because we wanted to go outside and hire new people. And we wanted to hire women. We wanted to make a major breakthrough in terms of gender balance in the region and bring women as sector directors. We couldn't find any in the Bank, or it was a very difficult process. The pool of people we could draw on was extremely limited, and many of the women had already been taken by others. So we were left with basically nobody. And we made a decision that I still wonder today if it was a good one, given what happened afterwards, that rather than rushing and recruiting people, we are going to take the time to find the right people, including the right women, for the right places.

This is, by the way, why we didn't hire somebody for the financial sector; we didn't hire somebody for the chief economist. And this proved to be awful, given what we went through starting in August. The organizational thing is an issue in itself; it is about changing management, cultures, values, building a new system. But it's also intricately linked to the management of the Asia crisis and the way we in the Bank addressed this issue.

This region entered the Asia crisis without a person in charge of the financial sector, without a person in charge of economics. We had an acting economic director, no new chief economist. We had the vast majority of the management team, including myself, foreign to Asia; we had absolutely no clue what Asia was. I had never been to Asia before February '97, and suddenly we were faced with a fast unraveling of the situation of not only the country going down the tube but an entire region going down the tube with absolutely no capacity to even understand what was going on. And not only, by the way, was our team absolutely ignorant of Asia because of this

wish to break with the old system here, but most of this team had its experience from poor-income countries because this was our basic strategic assumption: that we would refocus on the poorest countries in the region and not on the higher income or middle-income countries, and therefore we had staffed the region with people who were more attuned with this type of countries. And what we were witnessing on the contrary was the unraveling of the middle-income countries and the large-market economies. What could have been the best people for us would have been people experienced with large-market economies and financial markets. So you couldn't imagine more of a mismatch between the reorganization and what was happening in front of our eyes. So we were in complete distress.

We have to add a few things as well. This region had not seen this Asia crisis coming at all. We had our eyes, not only a few months before the reorganization and the crisis but over the past years, everything we were interested in was the opposite of what we should have done in order to see things happening. I'm not willing to put the blame on my predecessor. It was just that the mandate of this institution and the way it was seeing it through was completely at odds with what suddenly became our mission in the summer and then the fall of '97.

The region was seeing and the Bank was seeing its mission in Asia as being an investment lending bank. And what suddenly we discovered is that in the face of major macroeconomic shock, we were part of the macroeconomic and systemic therapy. The implicit mandate that the international community was giving to the Bank was to be part of the prevention and the recovery processes before, during, and after crisis. Had we positioned the Bank this way in the years ‘85, ‘86, ‘87, the consequences, for instance, would have been that we would have spent a lot of money and energy into surveillance of the middle-income economies. We would have accepted to do things which would not have been seen as productive in the short run. We would have invested money and energy into policy issues which were being considered more as a loss of time, energy, and money, and every single dollar that was not going into a loan for an operation was a waste, which was very political in a certain mind set. And our shareholders, by the way, were endorsing this vision of the Bank because they were applauding the good management of the East Asia region in the sense that it was a cheap region with the best indicators, at the same time, in terms of quality of operations, in terms of cost. The clients did not want the Bank to come into their difficult business, their policies, tricky issues, the corruption thing, the financial sector thing also. So everybody was extremely comfortable with that very limited focus role of the Bank before the crisis.

But then when the crisis erupted everybody said, "But where is the Bank? First, why didn't you see the crisis coming? And, second, now that the crisis is there, please, guys, you are going to do structural adjustment lending planning; you are going to go into the social sector, your safety nets; and you are going to be part of the big, big game." Something that we were absolutely unprepared for.

BECKER: May I ask, who was saying this? Was it the IMF or the governments in the region?

SEVERINO: The G7, mainly. The G7 was desperate. Let's come back to the history of this crisis. In July ’97 the baht devalues, and immediately afterwards not only the baht devalues but all the currencies in the region are shaken.

ZENNI: Where is the IMF in this?

SEVERINO: Well, the IMF jumps on Thailand, tries to conclude an agreement, is unsuccessful—not because of the government. It takes a real change in the government and the appointment of a new prime minister and a new economic team from the opposition in October, if my memory is correct, to get to the point where real solid IMF agreement is possible, and where Thailand starts addressing progressively its problems and eventually starts solving them. The G7 at the time is obsessed with not putting a single dollar of bilateral money into this recovery program. That's why they come up with the invention of the second line of defense concept, which is that multilateral institutions put all the money, and the more money they put, the less we put. And the bilaterals come in only if the multilateral institutions are not enough to address the issues.

The consequence of that is that, given the limits of the IMF finding, you have to have the multilateral government agencies such as the World Bank and the ADB putting in the rescue plans much more money in relative terms than the World Bank or IDB put, for instance, in the Mexico, Argentina, and Brazilian crises where our contributions were extremely modest and focused quite a lot on long-term structural issues. There, not only had we to put large amounts of money, but we had to disburse them quickly, and we had to be part of short-term solutions. We had to address the structural issues within the short-term recovery plans, something which is very difficult to do. In order to do that you need a set of staff and a set of processes that are completely different from, say, finding a bridge. You have to have macroeconomists; you have to have social sector specialists; you have to have financial sector specialists; and you have to have people who are able to be told at seven o'clock in the morning that they will leave for Bangkok at ten that morning and please don't tell us about your family and your children. You just go and do the work, and we don't know when you're going to come back! And just do the work! And it needs a senior management team which is very open to flexibility, to unexpected events, is able to gather at midnight if a decision has to be taken at midnight.

Now, in addition to that, our distress was total because not only we had to intervene in Thailand, a country which had absolutely disappeared from our radar screen to an extent and in which we had not done an economic report in the past five years. That was not at all our worry, you know. Thailand was a successful county that didn't want to borrow any more from us, or only for very marginal issues. So, we had to reinvest in that country.

But at the same time, all the other countries were starting to go down the tube as well. And we had a major staffing issue: who we could find to really strengthen our Indonesian economic team? So, the second country that started going down the tube was Indonesia. And on Indonesia we added mistake upon mistake upon mistake upon mistake!

The first mistake, with hindsight, was to appoint the country director that we had appointed for a completely different ball game. We had appointed a former Resident Representative, somebody who's very good at the relationship with the Indonesians, who had been there for the past two years, who had very strong ties with different teams and was absolutely incapable, at least in the beginning, to distance himself from the country. He was the best advocate of the country--

something that was good if your problem is basically to progressively lower your exposure and focus on very limited areas. However, it becomes a problem when you get into the very difficult game of macroeconomic policies and structural policies and corruption and so on. So Dennis De Tray was not the right man in the right place. And this showed up when, in July '97, he wrote a country strategy that basically said that there was absolutely no problem in Indonesia, that Indonesia had the right economic policies, and basically that this was a very solid country that would not be affected by the crisis.

And, by the way, though this opinion was challenged within the Bank by several, it was widely shared outside the Bank. So it did not come as a shock at the Board, but at least we can say that we lacked lucidity. And, within the region we were not in a position to challenge Dennis and his team. I certainly was not; as a newcomer I knew so little about Indonesia and, on top of that, as I told you, I had spent most of my time dealing with the reorganization, not with country strategy and the situation of our countries. And there was nobody around me in that team that was in a position to really criticize the study because everybody was in exactly the same situation: coming from outside the region, coming from outside the Bank, and not knowing the country and being focused on the reorganization. So we were in an extreme weak organizational situation.

ZENNI: What role do the regional banks play in this? For instance, did you get alert signals from the ADB?

SEVERINO: On the contrary! The ADB had just produced a report in May drafted by Jeffrey Sachs that was a flagship survey, basically saying that the coming 20 years would be the years of East Asia and that everything was going fine in this region. And you couldn't find a word about the macro-economic crises.

BECKER: Was that true also of the IMF?

SEVERINO: Everybody missed that story, including the IMF.

BECKER: I lived in Singapore right after this, and was there for a while, and the Singaporeans missed what was happening. They had problems of their own, nothing like the rest of the region. But I knew people from both the private and public sector there and in the universities, and no one there had seen any of these problems either. They all believed their own publicity; I think that was part of the problem.

SEVERINO: The kindest way of looking at the Bank at that time is to say that we shared common ignorance and misconceptions. [Laughter] We should be more lucid than the average person; after all, we are paid to be more lucid than the market and so forth, and the least that we can say is that we failed miserably. There are reasons why we failed miserably, as I said: the way we were looking at our mandate, our whole strategy, all this prevented us completely from really even understanding that these type of things could happen!

This goes beyond, in fact, saying there was a team good enough or not. That's a marginal question to me. The real question is about the strategy and the role of the institution. These

questions are even stronger for the IMF than they are for us because they should have been the ones to highlight that.

But anyway, our mandate changed because of that, and because of the policy stance of the G7: “We don’t want to put any single dollar or bilateral money into this. You multilaterals deal with it. And if you fail, or if this is not enough, then we may come.”

When Indonesia started to unravel, we had it wrong in Indonesia since day one. We started by taking too optimistic a vision. We stated that Indonesia was not Thailand which, by the way, was true; it was worse than Thailand. But this was not the way we were seeing it. And, worse than everything else, we completely missed the political challenges. Our team there was absolutely convinced that Suharto was there forever, and they made huge strategic and communication mistakes.

I have to spend a few minutes on this specific story that is going to have a huge influence on our policy stance in Indonesia which, by the way, is our first client in the world, so not small, not for the Bank with an exposure of nearly 13 billion dollars. At the time there was a small group of people who were challenging strongly the World Bank and the way it was dealing with development operations in Indonesia, criticizing the Indonesian government for its level of corruption, and stating that World Bank operations were also widely corrupt. The most visible amongst this group was a professor from Northwestern University, Mr. Jeffrey Winters. Mr. Winters worked as a consultant on Bank operations and had been able to see things and was saying more and more loudly that around 30% of all Bank money was being completely diverted from operations into the pockets of the Indonesians or international companies and so forth. And he published a series of articles in July '97 at the beginning of the crisis. We denied completely the story, and I personally made a big mistake. I accepted to sign statements that had been prepared by our country team and our communications people flatly denying what Mr. Winters said and saying that we knew perfectly well where our money was going because we were very confident in our bidding processes, in ICB [international competitive bidding] and so forth.

It happened that the staff, especially the local staff of our resident mission, was shocked by these senior management statements. And they came to see Dennis De Tray, who was the country director, and told him, "We don't understand why this new management of the Bank makes this type of statement because we may not know whether it's 30% or 50%. It's very clear that no big chunk of our money goes into pockets where they should not go."

And Dennis said, "Okay, write something about it and tell me what you think about it."

And the staff organized a small working group that, after a few weeks of work, sometime in August, drafted a report called the “Dice Report" because Steve [Stephen R.] Dice had kindly accepted to be the writer for this group and finalized it. And they gave it to Dennis de Tray. The report basically said, "There is huge corruption in the Indonesian system. Our operations are completely part of this corrupt system, and whatever we do for the time being there's no way our operations can be immune from this ministry of corruption. And we think that the 30% number announced by Mr. Winters is credible."

Believe it or not, Dennis, who was at the time quite worried by the unraveling of the macroeconomic situation in Indonesia and was focusing on it, said, "Oh, that's very interesting." And he put this report on his desk, and this report never left his desk.

The situation continued unraveling in Indonesia, and we did what we could. We convinced the Indonesians that they should call the IMF to rescue them. At that time we had a very close relationship with the economic team in Indonesia, and we used that influence to convince them to bring the IMF in—a thing they were quite reluctant to do. This is to Dennis de Tray's credit that he really managed to do it.

The IMF came in with a very imperialistic approach towards Indonesia and their relationship with the Bank. But we decided that we had to collaborate, and we decided also that it was a great opportunity for us to promote reforms that we thought were absolutely crucial to the governance system in Indonesia and also would be part of the recovery process. The IMF was easily convinced of this position because they deeply felt that the problem in Indonesia was not really a balance-of-payment problem but a crisis of confidence in Suharto's government. And they thought that in order to address this credibility issue, the range of policy decisions that would have to be made had to be very wide and address not only the narrow macroeconomic issues, but also the monopoly and governance issues, and through these macroeconomic policies, the structural policies and, of course, the financial sectors and so forth. So they designed a program that was quite broad in its scope and the Bank played a major role in basically proposing most of the policy stances on structural issues.

Now the story is well-known that the Indonesians signed a program but implemented it badly because Suharto was not convinced at all that it was a solution. The Chinese lost more and more faith in his government and withdrew more and more of their money out of the country. The currency went down, and there were many events that eventually led to Suharto's downfall.

Meanwhile, we managed to stay more or less out of the game because we didn't disburse a single dollar during all this period in Indonesia in structural adjustment money, because we had made our structural money our commitment in the macroeconomic restructuring plan, conditional to these structural policies—the structural policies which the government was not implementing, which was the major reason for the failure of the IMF program and the major reason for us refraining from disbursing our money.

At the same time, we were extremely actively involved in trying to convince the Indonesians to implement these policies, and we went through several phases of adjustment, renegotiations, et cetera. I don't know if you are interested in the relationship with the IMF.

BECKER: Yes.

SEVERINO: Okay. So let me set this aside just for a second, in order to give the chain of events on the corruption and political side.

During all this period, the opposition in Indonesia had strengthened quite a lot and was more and more vocal in accusing the government of corruption and leading the country into a disaster

because of its corruption, the weakness of institutions and so forth. So the government basically lost complete credibility. And the Bank was more and more criticized with the new position because of its involvement with Suharto's regime. We were seen as the groupies of Suharto because of the supporting statements that we had made in the early stages of the crisis, because of the unrealistic positive statements we were making about Indonesia--even if these statements were believed and shared by the international community, they were not shared by the Indonesians. And they were very harsh on our position as lacking lucidity. And, of course, they were accusing us of having financed Indonesia for the past 25 years and, I think, fostered corruption. We were not seen as a group of people or an institution that tried to improve the economic management of Indonesia. And we were seen as the people who had allowed the government to remain, or even aggravate this level of corruption. This was the way this position was seen. And they were seeing in our continuous support of the IMF program the evidence that we were still supporting the government, even though we were not disbursing the money. The irony is that we were seen as real groupies of the government, even if the IMF was the real one.

So we were in a very difficult situation. This worsened when Suharto fell and the transition government under [Bacharuddin J.] Habibie was put in place and we decided to disburse the money as part of the international community effort. The fact that others, including the bilaterals and the ADB, et cetera, were doing the same thing and there was complete consensus among the G7 that this would be done--it didn't help us at all. We were actually singled out by the opposition and considered the incarnation of the international community's support of a rotten regime.

This is when our mistakes really killed us completely, because in July '98, the Dice report leaked to the press. And suddenly a major article appeared in the *New York Times* or the *Wall Street Journal* (I don't remember) saying, "The World Bank admits that 30% of its loans to Indonesia are diverted . . ." This came at the worse moment for us, when we were targeted by the opposition and we are trying to convince everybody that our balanced policy of imposing conditionality, trying to work on governance issues, improving social issues, and at the same time financing the government--the government that had committed to a democratic process--was the right way to go. The opposition said that this is the evidence. When the article appeared, none of us here knew what this report was about.

BECKER: It was the one left on the desk earlier?

SEVERINO: Yes. And one year afterwards we discovered that there was a report written by our own staff that was basically challenging the integrity of the operations that we had led in this country for thirty years. And now, how could we explain that, yes, this report existed, but it was not a report that had been drafted yesterday but one year ago! And we had done nothing! We had just done as if this report did not exist.

Of course, this was an unsustainable, unacceptable, incredible position. And the entire world press and the Indonesian opposition just said, "You are the most cynical and perverse organization we know. You guys know about these things, and of course you just deny them flatly, and you don't want to admit it." This destroyed totally our credibility in Indonesia. But totally, to the roots! I think that, you know, 30 or 25 years of work in Indonesia had been

destroyed by this incredible mistake. So we tried to react strongly and came to the conclusion that our only way out was to admit that we have problems. We stopped flatly denying the thing, and we sent big missions to Indonesia to address the issues of corruption and governance issues in Indonesia, and a big mission dealing with our own operations and internal stuff. These missions came with a wide array of proposals that we could do, the most visible of which were about dealing with corruption in Indonesia.

Then we had a very difficult problem to deal with, because the G7, and especially the Americans and the Japanese, were telling us, basically, “You have to help the IMF; you have to be part of the rescue plan; and you have to disburse money. And you will help this government because we don't want Indonesia to blow up. We want social stability to be preserved at the minimum level there, and we see no alternative to helping Habibie going to the elections that were to take place in the spring and helping a smooth political transition. And we don't want this, during this whole period, budget problems, civil servants not being paid, all sorts of things that would further deteriorate the situation. So you guys do pay!”

At the same time we were face with huge problem, which was how to justify large disbursements in a country where the international public opinion, not the government's, but international public opinion, the NGOs who had been the core of our strategy in establishing confidence with the civil society and so forth, were all saying that we were a bunch of naïve bureaucrats (that was the most charitable interpretation, the most negative being “just a Bank of perverse and cynical bureaucrats who take advantage of us and just want to support undemocratic, authoritarian, and corrupt regimes”)! So, we decided on a major set of conditionalities in our loans about corruption and governance. And we identified especially the social sectors as being one very concrete area in which we could bring some improvement, especially because the social safety nets were criticized by everybody in Indonesia as one of the best examples of the mostly corrupt issues, and these social safety nets were core to the recovery strategy and management of the crisis. We wanted the poor people to be helped in the crisis, and it was extremely scandalous and unacceptable that, especially in this area, corruption would be so widespread. So we said we are going to build a social safety net program that be a budget support, the conditionality of which will all be around improving the quality of the social safety net and decreasing the level of corruption

As it turned out, it was the worst idea you could imagine because we didn’t understand—and I didn’t, either—that by doing that we were putting ourselves in the worst trap because people would identify this operation (that we made the mistake of calling "social safety net loan") as an operation that was fueling corruption instead of fighting it, because the opposition had two things against this operation or intervention. They thought that every single dollar we were putting in Indonesia in budget support, even if it was to go to the poor, was helping the government stay in power. We had some trust that Habibie's regime would go to the elections and the elections would be fair, but the opposition had absolutely no trust that this would ever happen. So they thought that all this was a trick to maintain Habibie in power.

Second, we were never able to explain successfully that when the World Bank makes a structural adjustment loan, it goes into the budget and not into a specific set of expenditures. And the fact that we had called this loan "social safety net loan" made everybody believe that we were

funding the social safety nets. These social safety nets that were the core of the political debate in Indonesia were singled out by the opposition as the most wonderful example of the extent to which the corruption had reached in Indonesia. And there was absolutely no belief nor confidence that the government would ever respect or even accept and implement conditionalities. So, to an extent, the signals that we sent to the opposition by going that route, which was politically a brilliant way of addressing public issues, were completely wrong in terms of political management of that story.

BECKER: And this is by late 1998?

SEVERINO: We shaped this program from September 1998 to December 1998. And after that we got into negotiations with the Indonesians and tried to finalize the operation. This operation, by the way, was going to be an ordeal because the Indonesian government, not at the top level as Ginanjar [Kartasasmita], the minister of finance, had a very good understanding of the situation and he sees very well everything that he can take out of this operation. He shares the vision of the Bank. But below him, all those who benefit from the corruption of the social safety net see this loan as the absolute horror. So it's an excruciating process to negotiate each and every conditionality of this operation because each and every conditionality hits somebody, and somebody powerful. All the big shots know that by just putting their hands into this pot of honey they are hit by the conditionalities of the Bank. Consequently, our relationships with the government are terrible. Our relationships with the opposition are also terrible.

Now, what has helped and saved us is that, having put ourselves into this very difficult situation, we have stayed consistent. And we have said, after all, "We believe in this operation; we believe that we can improve social safety nets and improve governance, so let's just go ahead and let's continue sending the message that we are not playing games for or against the oppositions but just doing something we believe in. And because we believe in that, if the government doesn't implement we will not disburse the operation. This is an ethical operation, and this is the way we are going to run it."

The consequence of it is that as soon as the operation is signed, problems began because the Indonesians of course do not comply, et cetera, and by the end of the month of September '99 this operation is still not disbursed. To everybody who criticizes we say, "Look, we told you that this was budget money for the government, depending on anti-corruption measures. If the government doesn't move the way we want, the money doesn't flow." Then we started to be taken more seriously. And the fact that we didn't disburse, even though the money was there and available and the loan had been adopted by the Board, started people wondering what we were really after.

And then the East Timor situation started to interfere. In January '99 Habibie says East Timor will become independent; we are fed up with that situation. That's the beginning of the end for him, by the way, because he completely loses support from the army.

I think we played that story extremely well. And this is one of the things that has allowed us to rebound on that. From day one, we felt that East Timor is going to evolve in an unexpected way and that can bring the element of order and difference that we need to get out of this completely

rotten situation in which we have put ourselves. And so we put together a very good team here as early as January 1999; we told this group to prepare themselves to jump on this issue and be on the side of the East Timorese. And it's very important—why? Because this East Timor situation is emblematic of all the evil of the Suharto regime, and there we find we have a way of differentiating ourselves and saying, "We can be on the good side for once."

We started investing in relations with the exiled East Timorese—by the way, a very complex group of people. So we start doing things like training East Timorese economists and building network connections. This caused a lot of skepticism from some people in senior management here who were first and foremost caring about the relationship with Indonesia and thinking that this would infuriate the Indonesians, that the Indonesian government would increase the difficulties with them, increase the problems, and subsequently would be a disaster. So I've had to impose this policy--mostly against the wishes of my Managing Director. Finally all this is recognized in July 1999. We have the Consultative Group for Indonesia (CGI) meeting that takes place in Paris, and during this CGI we organize a statement by the donors to the Indonesian government saying that the international committee's report depends on their behavior in the East Timorese process, especially because at that time the East Timorese government is to organize the ballot to vote for independence or autonomy and there were a lot of fears about the behavior of the Indonesians.

What nobody at that stage in July 1999 really understands is how independent the army has become from Habibie and how he is completely isolated and has absolutely no grip on the army. We are talking to the government, but actually the government is not the one who has any power on the real situation and how the army has gone wild and has run amok and is ready to do what it finally did. But that we did not know at that time. The thing that we knew was that it was going to be complicated, so we are cautious enough to organize this strong signal during the CGI. And the government, the same Ginandjar who leads the delegation, answers in taking an oath officially acknowledging this statement, this message, and saying, "Yes, we will organize properly these actions."

Then the situation in East Timor unravels during the summer. After the ballots at the end of August, all these human rights problems arise--the slaughter begins. Well, it had begun before, but it increases, explodes with incredible intensity!

Meanwhile, the Bengali issue arises in Indonesia. Bengali is one of the failed and bankrupt banks in Indonesia that has been taken over by the government within the financial restructuring process. During the month of August, a few weeks after the CGI meeting, it appears that the central bank, et cetera, has allowed the owner to give hundreds of millions of dollars to the government in order to allow for a restructuring of the bank on the basis which, of course, is absolutely incompatible with the overall restructuring process of the institution. At that time, we take the decision to stop and block all our macroeconomic financing to Indonesia on that basis, even if we had no formal conditionality linked to any event of this type.

At the same time, we make Jim Wolfensohn write to Habibie about the East Timor events in his capacity as chairman of the CGI, reminding him of the commitments made at the CGI and telling him that if Indonesia does not behave properly in Timor, then it will endanger its relationships

with the international community, something which we're very strong on because we were not writing as the World Bank but as the chair of the CGI, so something that we are extremely comfortable with and nobody could really attack us on that.

And these two events at the same time—this letter and the fact that we freeze our financial relationship with Indonesia on the corruption issue—at the same time we stick to our position not to disburse, of course, start completely reversing the perceptions about the role of the Bank, what we are doing there and what we are there for. And from then on our situation has kept slowly improving. We have first the elections situation in Indonesia improving itself on the political side, a new president, new government, so not the same type of problems we had before. And fortunately we had built over the months some good relationship with the new then when it was still with the opposition. We had a very good relationship with Abdurrahman Wahid; we had a good relationship with Megawati—well, all these people who are in the opposition. The new crowd in power was used to us. This doesn't mean that, by the way, we are out of the woods in Indonesia. This situation remains very difficult, and a quota of the public opinion still believes . . .

And this is not the type of thing that you can really change over the course of six or nine months. No, these opinions are so entrenched and they have been built on the basis of such importance in political events, but at least we are now seen, I think, on the side as people who tried to solve problems and to work on them and not people who just deny and oppose and just want to hide the reality.

These are not the only things that we have done, by the way. We have done a lot of things in the management of our operations in terms of transparency, in terms of bringing civil society and the press into operations, opening a kind of green line for corruption, increasing quite a lot our own auditing and fiduciary dimensions of our operations. So a lot of things have become in a lower key way in operations that also help us and give us more credibility, even though we still know that in such a corrupt environment it's very clear that part of our money still goes in pockets where it should not go. This is not, by the way, the case only in Indonesia; it is the case throughout the world. Corruption is the endemic situation of all the countries we work in. And this is where the World Bank is in a very weak position, because we know that despite our efforts part of our operations are diverted. But it's something to deny it and another thing to recognize it and to say no, we can do our best efforts. And even if some of our money goes where it should not go, it's still worth doing ODA for reasons A, B, C, D and E, which is the way that we are trying to position ourselves right now, but in a more credible way, even if we have our opponents and critics.

So I've taken a long time with this story because this has been one of the shaking events for the Bank at that time, alongside with the Western Provinces Poverty Project, which I think we should talk about later on and about China. The story about Indonesian corruption has become one of the highlights of our institutional policy, not only in Asia, about corruption. One of the emblematic . .

BECKER: So this is one of the lessons that has been learned, this experience of at least confronting, if not conquering, the issue of corruption?

SEVERINO: What have we learned here? First, that we are a political institution. Okay. We are in a political world. In the world of internet, in the world of civil society, the world of complex political situations in unstable countries, we are a political actor. It doesn't mean that we have to play politics. It means that we have to be aware of our political dimensions, the way we're seen by others, and maneuver in this game. And it has huge consequences on our internal culture, our internal values, and the skills of the people that we bring in. In the case of Indonesia, it's so obvious at the level of management. When we come to the Western Provinces Poverty project we will see that it's also true at the level of the task managers, the bottom of our hierarchy where it has to be part of the skills that we ask of our staff, we train them to have.

In the case of Indonesia, being such a large stake-holder in the country, being seen as the ones who are supporting--making or killing--governments, we have to have a political discourse. We have to build our image, build our strategy, taking into account the way we're seen and the agendas of all the other stake-holders. In a country like Indonesia, we are part of the agenda of the opposition; we are part of the agenda of the government; we are part of the agenda of the international and NGO community which sees us in Indonesia as something that they can use for environmental agendas, for democratic agendas, for corruption agendas, et cetera. So we have become such a visible institution that whatever we do, we are part of somebody's agenda. And we just cannot refuse it. So being manipulated by others, we have to learn to manipulate others.

Once more, in the ethical and transparent way, transparency of our strategy, transparency of our operations, it's absolutely critical for us not to become a political player or player in politics, something we don't want to become. Taking into account the rest, I think this is the critical lesson of Indonesia.

A second critical lesson is about the game around corruption. We have for many years denied that there was any corruption in our operations because we were so naive and so faithful. We had so much faith in our own processes of international competitive bidding which, by the way, is very corrupt throughout the world as well. And all the merit goes to Jim Wolfensohn, who had raised this issue and said, "This is something we want to work on." What Jim Wolfensohn had not anticipated, I think, was that the issue was not only about trying to clean developing countries or help them clean themselves, but it was about ourselves. I think he had no idea when he started this campaign about corruption that we were part of the problem. And for many, many people, the World Bank was not part of the solution; it was part of the problem. That was completely out of our sight. And this is also something that we have learned in Indonesia about corruption: we are part of the problem. For many people we are an agent of corruption. This is something that is stunning to us, but it's the truth. It’s a reality, the way we are perceived by many people because they see the sign in the country, “This is a World Bank Project,” and they know that everybody is taking money out of it. So they say, “No wonder, that’s the World Bank, an agent of corruption!”

The single fact that we are there and funding an operation, we are an agent of corruption. And if we say, by the way, "Yes, we may be an agent of corruption, but this project is worth doing; it has a good economic rate of return. It benefits," is absolutely irrelevant. Irrelevant! Because what people target and talk about is not the economic profitability of the project; it’s the way it

corrupts, which affects society at large. And so they are talking about another dimension, which is political, ethical, soulful, and not economics. And the more we say we are economists, the more we miss the point.

So I think this is a second lesson about this issue, and this is where our strategy about corruption in the Bank has still to change because this is not internalized. This is now internalized in our region, not because we are smarter than the others, but because we had to think about it! But I still think that at the World Bank this is still not completely internalized, that we are not the ones who only tried to improve the situation of corruption, we are the ones that by our sheer and mere presence trigger corruption! This is very hard for a development institution to accept.

BECKER: Do you think that the Bank has the leverage over the long-term to really make much of an impact on that?

SEVERINO: I do. I think the Bank can have some influence in the long run. But we should not fool ourselves. Corruption is so widespread and the complex issues that we should not over-estimate what we can deliver in this respect.

And all the difficulty of our position is that we have to tell the truth about corruption without killing ourselves in the process. The truth is that we are part of the corruption problem. Every person who intervenes and brings money in the emerging economies in the developing world is part of the corruption problem. It's not only the World Bank; it's the regional development banks, it's the IMF, it's the bilateral donors, it's even the private sector. Everybody is part of that problem. And we have to acknowledge it because if we don't acknowledge it, we are not credible in front of the public opinions of the developing countries themselves who feel it, and feel it with good rhythms. They are right. We think that we are pure; actually we are part of the corruption process.

[End Tape 1, Side B]
[Begin Tape 2, Side A]

SEVERINO: The problem is that the immediate consequence of that would be we should absolutely stop ODA; there shouldn't be ODA at all. So this type of acknowledgement fuels to a considerable level the left and right wing oppositions to the ODA policy. So the problem for us is to go beyond that kind of immediate response provided and say, even in this context ODAs are, doing it, provided a certain number of things happen, for instance that our operations improve civil society control over public policies. I'm not even using the word "democracy," but civil society control over operations. And we know that we can bring huge improvements, not only in our operations but also in the way developing countries run themselves, by helping civil society control operations better. I am not talking only about the local level of operations; this is even the big operations—big dams, big roads, highways, et cetera.

We can also say that even when part of our operations can be considered as part of the corruption game, they can also benefit a lot of people. They can bring more stability and so forth. We have to make this case, but it's of course something relatively sophisticated already. It's not something that is plain water, and it needs from us a lot of commitment in the way we run our

operations in the countries that need a lot of rigor, not a lot of sensitivity to these issues. And this is something that we've been very bad at in the past.

Now the good news about it, in my mind, is that the decentralization process helps us tremendously in doing that. In the world that we have today, running an institution that deals with development issues from Washington is just a stupidity! The major advantage decentralization brings is that it allows us to have mixed teams of local and international staff close to the realities, tuned into these problems, sensitive to the opinions, the messages and the opinion of the public in the countries. And it allows us to be much more concrete in the way that we design our operations.

Now, it's not a panacea. Decentralization brings with itself a set of problems, of new problems like we didn't have before, managerial problems, especially. In the case of Indonesia, by the way, the only way we had to deal with this issue is by withdrawing our country director, which was a very painful thing to do and politically very difficult to do, especially because it was also acknowledging our responsibility in everything that was happening. So it's something which you manipulate with a lot of caution. And it also may bring us into other political difficulties in a sense that our people in the field may be very sensitive to the local public opinion, but they are less sensitive to the international public opinion. And so we have to find a thing that--here in Washington we hear more than they do, so we have to find a way to confront these two points of views and make them coherent. So decentralization is not the end of the story. It's just the beginning of a different way of managing institutions and bringing the local and global together so that we can find the balanced position that helps us move through the difficulties, knowing that no position is without cost. The problem is to find the best one in an array of—the least bad solution in an array of bad or worse solutions.

[End of session 1]

Session 2
April 12, 2000
Washington, D.C.

BECKER: This is the afternoon session of our interview with Mr. Severino, and we'd like to pick up from where we ended. You were talking about the things that you thought the Bank, and you personally, had learned from the Southeast Asian crisis. At one point you touched on the relationship between the Bank and the IMF. I wonder if you could talk a little more about that in the context of Southeast Asia, but also more generally about the relationship between the Bank and the IMF?

SEVERINO: Yes. It's obviously one of the complicated and delicate issues of that period, especially because there was so important a change in the way the Bank and the Fund started dealing in Asia.

I think the convenient starting point is to say that both the IMF and the World Bank were quite inexperienced in dealing with economic crisis when it came to Asia. It had been years and years since the IMF had ever been to a rescue operation in Asia, actually. So they were also to an extent rediscovering what the job was about in that part of the world. And on our side, as I've already said, we had never imagined that we would be in this type of business and especially with such short notice. So when the crisis started, the IMF rushed first into Thailand and then Indonesia, then into Korea by the end of November or early December. And on their side there was a sense of urgency, first because they wanted to get on top of the situation, to really get to control it. And after they discovered that the Thai situation could not be really handled, they tried to prevent the crisis from spreading all over the place. But, as you know, they were unsuccessful in doing so. So from September '97 to January/February '98 the situation was extremely difficult for them. There were a lot of discussions and debates within the IMF on what were the appropriate policies, which was not that a unified front. The East Asia team and the IMF had a very difficult task, not only externally but also internally defending its own policy. During all that time the obsession was to use the Bank as an instrument in the framework of their policy.

On our side, we were, especially at the more modest level of the region of the Bank, caught between on one side the G7, on the other side our own senior management. The G7 wanted us basically to come and to pay. Did they really care about structural policies? I doubt it. There was very little understanding among the treasuries, even the U.S. treasury, about the structural and macroeconomic roots of the crisis. And there was a belief that the solution to the problem would come from: (a) pouring money into the problem, but not their money, the multilateral institutions' money; and (b) getting the macroeconomic house in order, and in their sense, getting macroeconomic in order meant having a tight military and fiscal policy and having the usual package of policies. And yes, they agreed that the banking sector should be fixed, but the visions that they had of fixing the banking sector was more trying to bring an end to the hemorrhaging rather than reshaping completely the way all this worked.

Remember that all these G7 treasuries who were pushing us into the game were the same ones which had agreed several years ago to the Washington Consensus that had created the basis for the catastrophe. So for them really looking into the structural dimensions of the crisis was a very

painful exercise, and the awareness of the difficulty of what the prognosis was, was very limited. So their vision was, "Please pay, and help the IMF." And the IMF vision was, message to us was, "The G7 has told you to pay, so please pay. And don't bother us with your problems. Just do what we tell you to do where you have to do things."

And at that time, especially at the beginning of the crisis from September '97 to February '98, our role was quite limited, marginal elements of the financial sector, a little bit of the social, but not too much because of the fiscal consequences of social concerns. And that was it.

Now, our senior management had a very different vision of that. They wanted us to be a real actor in the crisis. They wanted us to really be into the structural business. And, even more complicated, they wanted us to be in that type of business under our own brand, not promoting the IMF brand but being the World Bank and doing things in a visible way and keeping the identity and the independence of the institution, which was extremely difficult when you have an international community and G7 members and even governments who say, "There's just one pilot in the plane and this is the IMF." The Asian governments were saying, "We want to deal with the IMF, and it's already very complicated to deal with the IMF. We don't want to deal with ten other people, so please be part of the IMF plan." And on the other side, we had management saying, “You have to have your autonomy, you have to be visible,” and so forth.

Of course there was also a question of not only pride--though this was very much part of the problem as always--but of substance because since day one we had important differences of vision of the problem with the IMF. We had differences on the structural side on how rescue operations for the financial sector should be handled. The IMF was very much of the opinion that you should put a lot of money into the financial sector for the restructuring, for recapitalization, but at the same time you should close a certain number of banks right away, create a shock, make the markets feel that the governments were credible in their intention to bring institutions and banks into bankruptcy and to deal with them. They wanted, as I've been told several times, "blood on the wall!" And our teams here were much more cautious in the way they were dealing with this financial sector, considering that it was a very long-term issue and one had to act in a very prudent way.

Whatever the right solution was, the fact is that there was a difference of view, and it was not easy, after all, to reconcile these two visions at a time where decisions had to be taken very quickly and action had to be immediate. So, there was no time for big debates, sitting in conference rooms and talking at length about what had to be done. The result was that we were in this sector quite instrumentalized by the IMF, and basically went by their rule because we had no real margin for maneuver. If we opposed their technical solutions we were accused of slowing down the rescue processes, and we knew that the arbitration of the G7 treasuries would be against us because actually in this type of discussion the IMF credibility was much higher than ours. And it's also true that they were more credible than we were for good reasons. We had very small teams; we had just a few people to throw at the problem. We had difficulty hiring for the financial sector. So we were not in a very good position, and we didn't have the means of being, you know, self-confident. Actually, we could not handle by ourselves the financial sector restructuring process. This was something that our own management has taken some time to discover and understand.

The second area of disagreement was the macroeconomic policy. The IMF went into that story with the idea that both the monetary and fiscal policy had to be tightened. And though we had some doubts about the monetary policy, we never reached a point at which we would be sure enough that they were going in the wrong direction to really oppose and confront, et cetera. On the other hand, on the fiscal policy, we were very sure that they were going the wrong way. We knew when we saw that these countries were very conservative, fiscally speaking. There was plenty of room of maneuver for additional public expenditure. We thought especially that because of the links between the domestic situations and the regional situations in the region, because there was a lot of regional trade going on, if recession was organized or amplified in one country this would have impacts on the others. And this would strengthen the spiraling down that the financial market crisis itself had triggered. So we fought it; it was very important that this fiscal policy be more open and more aggressive. And for the same reason as for structural policies, it was very difficult to convey that view. Even if we had conveyed it, we were not listened to, and not being listened to we had no choice but backing the programs even if we did not believe in them that much. Had we not backed the programs, this would have been terrible.

Now, the difficult point, without insisting too much on that, was that Joe [Joseph E.] Stiglitz was less cautious than all of us. And he went on the record on these issues. [Laughter] By the way, he went much further than our own team and our colleagues here. As I said, you know, we had doubts, but we were never quite convinced one way or the other about the monetary policy; whereas, Joe on the monetary policy was dead sure that they were going in the wrong direction. By the way, we have reviewed recently and exposed these issues, and we are publishing a paper now on this issue which, in hindsight, rather backs the IME position on the monetary policy. So I think this will remain a debate for a long time within the Bank and in the economic community about what would have been the right policy at that time.

So in all that period we felt trapped, because we felt compelled to support programs in which we had doubts, technical doubts, either on the macro or on the structural policies. This was enhanced by the fact that when it came to Indonesia--by two very difficult experiences: one was Indonesia; the second was Korea. In the case of Thailand, we accepted more or less to be dominated because we knew that our knowledge of the country had decreased quite a lot. We had little to contribute, and it would take time for us before we would be back in a position where we could really add value. So we were asked to pay in that program, but doing more than paying was difficult. But we invested quite a lot in payment. As you know, as we built a resident mission, we built a country unit, and we devoted a lot of means to be back there.

The real difficulties started with the Indonesian program in October '97 because there we had a large resident mission; we had a lot of experience; we had connections with the Indonesians, and we were humiliated by the way the IMF dealt with us, using us as their little hands for their work but not giving credit to what our teams had done. And this was a problem, of course, at the top between Michel Camdessus and Jim Wolfensohn, but in a less visible way but maybe even more important way it was a big problem at the working level between our troops because actually we were asking our staff in the field to help the IMF and to contribute. And the sources of the IMF program were depending on that contribution, but at the same time there was a lot of resentment

within. This cooperation was very fragile and difficult to handle. And until the beginning of ’98 that was a very hot issue.

What changed the situation is that starting February '98 Hubert Neiss, the then director for Asia at the IMF, took over personally the management of the Indonesian program, and he was much better at bringing people together, acknowledging contributions, and even if we continued having difficulties and disagreements, they were handled on their side in a much more open, much more friendly way. And it helped a lot!

Now, before Hubert Neiss adopted this much open stance, we had another difficult experience in Korea in December. This was really the bottom of it. As you know, it had been five or six years since we had lent anything to Korea and the country had even formally graduated from the Bank. So we had really neatly closed operations, and nobody had worked on Korea for years in this institution. Because of the magnitude of the financial needs, the G7 treasurers decided that we should contribute, and no contribute marginal amounts but contribute 10 billion dollars. That was what the IMF was asking from us. And 10 billion dollars was a huge amount of money, not only for this region but for Bank as a whole. It raised a lot of questions regarding our capital/liquidity ratio; it was a systemic issue not a marginal event.

So maybe I won’t spend time dealing with the technicalities of this issue--the pros and cons and the financial impact of this commitment on our corporate structures. But the fact is that we were put under a lot of pressure, and there was a lot resistance--not only, by the way, on this financial ground--within the institution, but also because making this contribution really meant that the Bank was considered a fireman like the IMF. We were not anymore a development institution. So it was an even stronger shifting of our mandate when it came to Korea than it had been for Thailand or Indonesia because Korea was the 11th economy in the world, it was an OECD member, we were talking about a different ball game.

BECKER: Also the IMF hadn’t had much experience in Korea for a while, either.

SEVERINO: It was very difficult for them, and they were asked to intervene extremely quickly. So Korea didn't come exactly as a surprise to them. They had been preparing themselves for this collapse for some months. They feared that things would go that way, and it happened exactly the way they feared it. And the IMF played this part very, very badly. Actually—I don’t know how worth it is going into details, but basically the IMF tried to ignore us, to push us aside. This was really in a very blatant way; there was a lot of bad faith on their side, I'm sorry to say. The situation only changed when, after having committed not only to the 10 billion but to the first 3 billion dollar loan that we disbursed right away. We started to work on some of the structural issues, and we gathered enough capacities to really be able to handle big chunks of the program that was too large for the IMF itself. So to some extent, they started to realize in January and February that they wouldn't be able to make it alone. They absolutely needed us.

And this was the turning point in our relationship with the IMF during the months of January, February ’98. Because then the crisis was so large, so dangerous, the task was so enormous that they started to realize that they absolutely needed us into that job technically. Not that much

financially, actually, because commitments had been made and would have been implemented anyway, but they needed additional task force, additional people to deal with the most dangerous dimensions of this program.

Now, the Korean operation symbolizes in an extreme way the policy debates of that time, and there was a lot of discussion about the nature of the Bank. Who are we? What are we there for? I think the G7 had a very simple way of looking at that: "We need money, and there's cash there, so let's get it." For us and for all the members of the Board the issue was more about the mandate of the institution and our strategy. You had two very extreme positions. Some people were saying, you know, “This is not about long-term development, et cetera; this is about rescue operations and therefore the Bank should not be involved in this type of things. Period! This is not our job.” Others were saying, “Look, development is also about managed crisis. When you have a big crisis, you have also the major policy changes, so if you are not present and active at that time, then if you pretend you are a development institution dealing with policy issues, then you are missing the crucial moments where change is taking place. So you have to be there.”

The second view in this respect was to say that some of the major developments that have to take place in these crises is making sure that some of the key items on the development agenda (such as the social, the environment, et cetera) are not forgotten in the way these crises are managed—in the long term, it’s present, also in the short term, the way it’s being handled, even beyond the issue of the social safety net which by itself is very important. Because we incarnate in the multilateral system this type of agenda, we have to be there, and we have to be part of that game, even if it is an OECD economy, but because of all the repercussions on the region this is also part of our action.

I was personally on that side, maybe because there was one part of me which was absolutely just convinced about that, but also one part of myself was saying, “Any way the G7 wants us in it, we'll never be able to resist that! We cannot! This is their decision, and we’ll have to implement it. They are the masters, and therefore rather than having Russian help, being in it rather than just being forced and pulled into a game we don’t want to play and therefore that we will play badly.”

The paradox of all that is that this Korean operation has been our major success. We've been probably more successful in Korea than we have been in Thailand, than we have been in Indonesia. I mean, not only because the Koreans were very good at managing things, but because we have been very good as a team in that operation. We have, I think, provided the right advice at the right moment--a thing that we have not done everywhere, as the history of Indonesia exemplifies.

One of the things that I'm very proud of is that we have been able to root the social agenda, the core of the macroeconomic program in Korea in a way that has not been possible to do in other countries. And this is probably in this respect our best operation. I think we have been also extremely successful in the corporate restructuring program in Korea.

So starting at that point, February-March '98, relations with the IMF started to improve considerably on the ground at the level of the teams, program by program. There is definitely a

change in behavior on the side of the IMF and the policy decision which is made inside of the IMF that they have to work with us and include us.

Now, it's not the end of the story. At the same time the relationship is improving on the ground, the policy disagreements remain. And it's not because on the day-to-day operations, coordination, collaboration is better than on these big fiscal or monetary issues we completely see eye to eye. And what makes the situation change is the continued unraveling of the situation in March, April, May, and June '98, where not only the Indonesian economy continued to go down the tube full speed and political problems in Indonesia, but what happens is also that the crisis spreads to other parts of the world—Russia, Latin America--and month after month we see the fear of prolonged recession turning into a depression. And we become absolutely certain that something big has to happen if we don't want to see this economy crisis spread to the entire world and the entire world economy collapse. And I still think, with hindsight, that between March and September, October '98, the world economy was on the verge of complete collapse. So, it was really just barely avoided.

Two things especially appeared to me to be needed. One is changing the macroeconomic stance for good in Asia, implementing Keynesian policy at this stage, because we've reached a point in which there's such a collapse of the domestic demand. That is generating collapse of the external demand, and we have to break this vicious circle. This has to be linked to a big push of the social programs in Asia because we see world poverty increasing, and behind the poverty increase there's not only the human social problem, there's also the political issue. And we fear more and more that the governments that have taken over through democratic processes in Korea, Thailand, et cetera, would be deeply in demise and would not be able to continue running the system. It would be a political collapse of the region as a whole.

And the second thing, we also believe that something big has to happen at the world level, because the depression that is now threatening to take place is also triggered by the fact that both the European, Japanese, and U.S. economies are rather on the restrictive policy side. So while the American economy is booming, interest rates remain really high, and interest rates in the United States are absolutely key for both the Japanese and European economic situations. And these two countries, or group of countries, need a big boost. And without this boost and the increase of export demand to Asia, there would be no way this vicious circle could be reversed.

Two things had to take place roughly at the same time. And what scared us was that nothing was happening. This kind of coalition of decisions that had to take place both at the regional and global level, we didn't see how it was taking place. And at the World Bank we were extremely ill-placed to trigger it, to help it happen. First, there were things that we could do at the regional level, but at the global level, of course, it was our president with the institution--not the region--who could do something about it. And Jim Wolfensohn was trapped in his debate with Michel Camdessus to stir up the issue between the IMF and the Bank. There was no way Jim Wolfensohn could take initiatives without, you know, irritating and infuriating Michel Camdessus, who thought he was the leader in that game.

So I think we had a lot of lucidity; at the same time we were paralyzed. And actually the only thing that we did during that period was talking quietly to the different treasuries, talking to the

IMF, talking to the governments. But we were extremely discreet publicly, which was a very difficult stance for us because we were asked every day to say what we thought about the situation. And of course we have full confidence in the IMF and that the right policies are being implemented when we thought it was exactly the reverse. [Laughter] And we were just going down the tube and that's what was going on.

Communication in that type of situation is very difficult. Either you are a good soldier and you respect your masters, you respect your partners, but then you're obliged to be diplomatic or to lie and to hide what you think. Or you say what you think, but then you create tremendous turmoil and chaos into the system. Joe Stiglitz had completely made up his mind about it, so he was on the side of the chaos. So every time he had an opportunity to say what he thought about the situation, he was saying it.

There was one point where I could not keep my tongue, and being in Australia (it was April) I said publicly that we're going toward a depression and we had to do these two things at local and at regional and global level. And it had a tremendous impact, but it also got a lot of flack! It was a terrible time for me.

ZENNI: Internally, from the Bank?

SEVERINO: Internally, from the Bank, and also with the U.S. Treasury. Larry [Lawrence H.] Summers was really angry to an incredible point. And I think the main concern of the U.S. Treasury was that nobody would say anything that could make them appear as having made the wrong decisions. They were taking any criticism or any comment either from an institution or from academics about the way this crisis was handled as a direct political attack, and they were really ready to kill. They were frightening at that time.

Nevertheless, the curious thing is that the one person who not only did not react negatively but applauded me, at least internally, for what I said, was Hubert Neiss, the IMF director, who by April/May also completely changed his mind and was completely aligned on this position. Actually, the problem he had was with the IMF hierarchy, which he had a lot of difficulty convincing that they had to completely change their macroeconomic stance.

ZENNI: So there are lessons to be learned. Of course, one hopes, especially in terms of IMF coordination. And now with the change at the helm of the IMF, do you think coordination will improve?

SEVERINO: I have no idea. I have no idea because I think this is something that is very difficult to regulate through processes for institutions.

In this case, if you look at this issue crisis, it's very much a behavioral thing. Had we had at the very beginning of the Asia crisis an IMF team that would have been a bit open and careful about that, they probably would have listened more. These are difficult issues, and you have very good people arguing for very different solutions at the same time, and so at the same time and at some stage you have to make a judgment, take a risk and make a bet, say no, "Given what I don't

know and given what I know I smell that this is something to do." And that's life; you have to take risks and so forth.

So the problem is not so much that the IMF made a mistake or pushed the wrong macroeconomic policy, but it is the process. Intelligent people at that time could have that bet with a lot of reasons. Minds were extremely divided on what the right policy should have been. But at least the IMF could have created the feeling that they were listening and trying to find the best solution and to make the best judgment. I think nobody would have resented the fact that ultimately somebody has to make a decision. And they are the institution in charge of managing crises, so it's up to them at some stage to make it.

What was very difficult was that you had the feeling that if you tried to say something and to contribute and highlight problems and so forth, you were committing sabotage. There was no dialogue possible. What changed, I think, after March, April, May is that after having been slapped in the face and after having a difficult experience, the Asia team in the IMF started to understand that it was in their interest to listen and talk. And after that they could, you know, say, "Well, we still think that we're right" or "We want to change our own mind, but we have to do ti differently." And this is, by the way, what happened, though Hubert Neiss stuck to his military policy. With hindsight, by the way, I think he was right. He did the right thing. He made this judgment; he listened a lot; he talked a lot about it. He said, "You know, I still think . . ." But on the contrary, on the fiscal policy, they changed their stance, and they pushed the opposite way, and it happened that it was also a good decision. And actually, starting I'd say the summer of '98, we had no more policy differences with the IMF, or we had sometimes minor issues that were dealt with in a very professional and friendly way, and we succeeded in disbursing.

In the financial sector, which was also a difficult issue, we also came—about at the same period—to a consensus on how things should be dealt with. And I must say that in this respect we tried to stay modest as well because, as I said earlier, our own capacity was limited so we could not claim to master this financial restructuring process ourselves. We had to live with the IMF; we needed their contribution, their involvement; we couldn't do it by ourselves. The only area in which we insisted to be the leaders was the corporate restructuring and social programs. We had some difficult moments here and there, but overall the IMF respected that division of labor, and they accepted our prominence in these areas.

To be candid, I think we had great success in Korea in these areas, but in Indonesia we failed miserably on the corporate restructuring, and everything we proposed went down. By the way, I think that anything would have gone down given the political circumstances in Indonesia, but I must say we claimed that we had the right solutions when we hadn't. And even if we had the theoretical right solutions, capacity to implement was zero, and therefore we could not be claiming any right in leadership.

So, starting the summer of '98 our relationship with the IMF improved tremendously, and since then I cannot remember any big issue that we have had. [redacted]

[redacted]

ZENNI: Would you talk a little about the Comprehensive Development Framework in the institution?

SEVERINO: Maybe just the international financial architecture, the [Allan H.] Meltzer Report, because it's linked to that.

This Asian crisis has many dimensions. There are very important political and governance dimensions as we have related. There are very important cultural and social dimensions, because if you look back at this crisis, the most important and interesting thing that has happened in Asia has been the democratization of the countries, the emergence of the civil society, the fall of authoritarian regimes. This has been a tremendous political change and cultural change, and I guess that in ten or twenty years' time, when historians look back at this period, they will probably remember even more the political changes than the economic shock. And for the Bank, this was also something very important to adapt to. A second dimension was, of course, this East Timor thing, and it was full of political events. The third dimension was all these economic policy issues: liberalization, Washington Consensus, free capital market management and so forth. But the fourth dimension was how the Bretton Woods institutions, the United Nations system, should be organized, so the institutional dimension: should there be regional organizations, the Asian Regional Fund, Asia Monetary Fund; how the international community

organizations, the Asian Regional Fund, Asia Monetary Fund; how the international community should organize regionally and internationally to deal with the prevention of crises; their management and the recovery operations.

My very modest feeling about that is that we have made very little progress since this crisis. A lot of talk has gone on, but as soon as the crisis started subsiding everybody has shied away from the difficult issues, and we are still in a very confused system. If today the crisis happened again, we would still be completely left in the vague about what is the mission of the Bank. Nobody has ever said after all these events, "Yes, what we have done in East Asia was the right thing to do, and we know it's the right thing to do to be a fireman, as a development institution has also to be a fireman," or, "No, we may have been successful in Korea, but that's irrelevant. Irrespective of our success in Korea, we should not have been in that game because we have devoted a lot of energy and money that should have been better put, say, in Indonesia or in the poor income countries."

So nobody has taken any steps and drawn any conclusions about that. So in terms of who does what in a crisis, no policy lesson. We are still in the vague when it comes to the prevention mode. Should the Bank or should the Bank not be an instrument of crisis prevention? And this has very concrete dimensions. Since Jamil Kassum, my successor, has the difficult task to make budgetary choices at a time where the resources of the region are going to be cut next year by 10%, now if Jamil thinks--because nobody is there to tell him anything--that his job is to deliver as much money as possible to the region at the lowest possible cost in budgetary terms, then he would cut sharply into all surveillance operations, and he will cut the budget that we are currently devoting to the financial sector. Why would he maintain budgets for corporate and financial restructuring when we have absolutely no lending in sight, when in these sectors the countries make it very clear that once the crisis has faded away they want to be the masters at home and they don't want us in, or they want us just for marginal aspects but not the key . . . So if we are not just a lending development institution, or if we are a development agency that deals with long-term issues, we should just say, "Yes, that's fine. Okay. The countries don't want us in. Let's forget about it. You know, we have so little money."

Now if, on the other hand, the institution has a mandate for dealing with crisis, then as an institution we should put money in and Jamil should put money in maintaining teams here, given that probably the financial sector would have nothing to do for some time but drafting surveys, visiting people, trying to promote the Bank in the region in these areas, and be a kind of task force that could come in if things were to unravel again. But Jamil can be criticized quite a lot for making this type of choice, because keeping people idle or on tasks that are relatively marginal or that do not produce things that are visible is very bad for him, and not only for the senior management, but also for all the colleagues around, you know, the guy who's dealing with rural development who says, "There are so many poor in Asia in rural areas, and the $20,000,000 that you are devoting to the financial sector, for these people who do nothing but stay in their offices or visit central banks, we could use them to save and move people out of poverty!" So when you are vice president and you are faced with that, what should you do? And there's still no policy decision. He's left without any instruction.

ZENNI: Shouldn't there be a paper on lessons learned that comes from the region and is presented to senior management saying, "In view of what just happened, what do you advise that we should do? How should we proceed?"

SEVERINO: It's a very good suggestion! This is something that Jamil should do and should provoke as a debate. By the way, it's not only a problem of Asia; it's really a corporate issue. And I completely agree. My point is to say that at this stage we are completely left in the vague. Now, it's not something that's completely in the hands of the Bank and of Jim Wolfensohn because this touches on our relationship with the IMF.

ZENNI: Since the U.S. Treasury is giving advice as to how the institution should be structured as a result mostly of the Asian crises. There is the Meltzer Report from the U.S. Congress; the next thing will be an EU proposal. So, shouldn't something come from the region telling senior management, "These are the lessons learned and this is what we think should be done as a result, what do you propose?"

SEVERINO: I think it's a very correct suggestion. It's a debate that we have not had before because our own budgetary situation in the region has been such that until now we have taken the stance that we should be in. And we are very much in the fuller preparations of the restructuring, so the question was not—at least for us it was so obvious that we should do it—that without asking anybody we have continued doing that. But now the problem is that big cuts have to take place, choices will have to be made, and people will suffer for that. Your point is perfectly correct. I couldn't agree more.

So I just want to make the point that at the point we've reached now there is no agreement within the institution and within our Board, and between our institution and the IMF, et cetera, about what is the mandate of this institution. Are we or are we not in the surveillance business? And this unanswered question is pervasive, as you find it in many of the different exercises that we're promoting. For instance, we're talking about the CDF; should there be a surveillance dimension in the CDF? We have been talking about a program of structural surveys that was launched one year ago which is a kind of a systematic review of the key sectors, and the question is: is it a surveillance exercise? In that case, it is mandatory; we have to do it on all the countries at risk, and all the major countries at least. Or is it a service to a client? In that case we should do it only with the countries which are asking for it. And then you may have countries that are not really at risk, or countries that are not really important for the international community which may be asking for it, when you may have major countries which you should concentrate on that would never do it. So are we as an institution responding to client demand? Or, if we are an agent of the international community that has a kind of systemic role, are we to develop activities irrespective of the clients' role? And this is also an unanswered question that has direct budgetary consequences on what we do, but it also has consequences on the type of relationship we have with our clients.

So the Meltzer report comes into that context. I have not read it yet so I feel a bit reluctant to go into too much depth. I can talk about what I've heard about it. The general thrust of the report, which seems to be saying that the IMF should concentrate on short-term crisis, et cetera, is very appealing, especially seen from the Bank's side. That's fine for us. We like it.

BECKER: They envision a lesser role for the Bank, as well?

ZENNI: Concentrating more on grants and not loans and concentrated in Africa?

SEVERINO: Exactly. You can debate that. You can debate whether IDA [International Development Association] should be grant money or loans. But I think it's a relatively minor issue. As you know, IDA is a quasi-grant, so the difference would be quite marginal.

I'm not sure this is the critical thing. I think the critical proposal is whether the concentration on IDA-like countries and the World Bank moving out of IBRD countries. And that, I have my suspicion, is not feasible and wishful, for the simple reason that if the IMF is to concentrate only on very short-term issues, then if the crises that you see happening are also rooted in structural issues, on developmental issues, then there's a need for international agencies and international actors to support governments that wish this type of support to take place. So even without talking about surveillance and so forth, backing is very important, and nobody would like to just give grants to Brazil. The loan instrument makes sense for the type of Thailands of this world. They have the capacity to repay, and there's some fairness in this service.

BECKER: Well, there's also some discipline and accountability. It's easier to have accountability with lending.

SEVERINO: So the problem with the Meltzer report is that it seems—once more, I've not read it--to assume that there are just two categories of countries: the countries that need assistance and the countries that do not. And actually there is a whole array of situations, and the history of the Bank and the way the instruments have been developed is exactly to address this vast array of situations, different degrees of wealth, of development. So, I would be careful.

As you know, I've worked many more years in Africa than in Asia. But I would think that what they seem to say is more relevant to Africa than it is to the rest of the world. It's very striking in Africa to see the IMF involved for the 12 programs, you know, the second program in one country, and you wonder. The IMF has transformed into a development agency in most countries in Africa. There you wonder what is the role of the IMF, and you can't help thinking, "Well, if the IMIF could just concentrate in Africa on the poor income countries or the very few ones which really have payment problems and let the World Bank deal with the rest of the problems including the macroeconomic ones, probably this would simplify the system."

BECKER: Well, in talking about the architecture, aside from the Meltzer report, there are all kinds of other studies; lots of academics are looking at this. What do you think is likely to happen, or, what do you think the Bank is doing in regard to this. Is it being defensive or is it trying to be proactive?

SEVERINO: I think the Bank is rather proactive, and I think the Bank has been rather strengthening its position over the past years. It doesn't mean that it is without weaknesses. But things have been moving rather in the right direction as far as this institution is concerned. Now, if I had to make a bet, it would be that things will change--if they change--extremely slowly and

with a lot of caution. I don't see any of the major treasuries or many heads of state of the G7 countries going wildly for major disruptions in the system, the reason being that if the system can be improved, it is not that stupid, you know. And the Bretton Woods institutions still remain the only institutions that the key G7 countries can really rely on when something happens. They have nothing, nobody to turn to. They cannot turn to the UNDP [United Nations Development Program] to deal with dangerous issues. They cannot turn to the regional development banks. My bet is that they are going to be extremely cautious, and they will not get into . .

[End Tape 2, Side A]
[Begin Tape 2, Side B]

SEVERINO: So if things have to change, they will probably change very slowly because, once more, everybody's afraid of triggering changes that would get out of control and lead to extreme deterioration of the two institutions.

When you look back, despite criticisms and a huge debate, these institutions have been very helpful to the international community. Frankly speaking, when you look back at the East Asia crisis, the IMF and World Bank have been present; they've brought a lot of money; they've been very active in terms of policy advice. Though you can challenge whether this was the right advice or not, after all, the crisis has been brought under control. Major reforms have taken place in the Asian economies. The institutions have played their role, so you cannot talk about massive failure. People of common sense cannot talk about massive failure, massive dysfunction. And this institution in particular has been able to completely change its stance. After all, in Asia we were there for a completely different job than the one we were asked to do starting 1997 and, we said, "Okay, we'll do it!" And we have done an urgent job and, you know, that was acceptable. We could probably have done better. We could probably have done even better several years before had we decided that this could happen and started preparing for that. After all, we were there. So I think because of all this the system is going to change slowly.

BECKER: When you talk of the Bank being uncertain about its mandate, my sense is that from within the Bank has become, in the Wolfensohn years, more certain about what it was about.

SEVERINO: But we're talking about a different set of issues. The uncertainty comes about our role as an instrument of systemic stability. Now, as a development institution I think the philosophy of the institution has deeply changed and has become much more assertive. And this idea that Jim Wolfensohn has promoted very successfully within the institution, that we are not a bank, we are a development agency that is dealing with, one, knowledge; second, capacity-building, and this is the core of what we are here for, this is very clear in principle. This is not clear in terms of implementation because in terms of implementation we still remain very much a project-oriented institution that has a lot of difficulty addressing capacity-building problems, institutional issues, political issues. When you talk about these institutional and capacity-building issues, you talk about political issues. And there we are still very weak and a lot of things remain to be done. But at least the vision, the overall strategy is there. And I'm very confident that with some time and some consistency--I hope that Jim will not change his view, et cetera, or the institution will adapt and build its own capacities to deliver that strategy--the thing that we still do not do as well as we should.

BECKER: This raises the question of internal organizational and managerial issues. The reason the Bank changes so slowly and the reason it has difficulty buying into this vision and bringing about this kind of implementation, does it have to do with Management-Board relationships, or staff issues?

SEVERINO: I think that we are not yet equipped in terms of staff and business processes to be able to deal with the sophistication of capacity-building issues and knowledge issues. When you're talking about this type of product, you're talking about a lot of unstructured things to start with, where this institution is used to deal with structured products alone and a report. It is very difficult to get your hands around a whole set of very fuzzy activities when we talk about knowledge management.

When you talk about capacity-building, you are talking also about very complex operations that are extremely manpower consuming, though in capacity-build issues a lot rests on the dialogue between people who are within the institution and those who are supporting the change. You are talking about a lot of flexibility. You are talking about things like training, things like technical assistance, things like exchanges, networking, cultural transformation. These are skills, practices that are completely absent from our institution, or if not completely absent, they are really rare in our institution.

Our institution is still staffed with people who are economists and basically think that when you have a good idea and a good policy, things will happen, and engineers or technical specialists who value a technical skill and its technical response to a problem. And our staff, we know how difficult it is to change institutions, to change cultures, and what incredible skills it requires in terms of sociology, understanding of people, et cetera. And the way you deal with this type of--i's not only staffing, but it’s also processes and methodologies. If you want, say, to change the way the Customs Administration works and the government agrees to it, it’s something that’s going probably to last 10 or 20 years, and that will encompass a wide array of actions that will need a lot of adaptations as things move on and where probably the amount of money in terms of the loan or grant that you would put in would be very small in comparison with the time that your own Bank staff will put into monitoring what happens. This is exactly the reverse of what we have been doing for so many years. When you fund a dam, you put huge amounts of money, relatively small staff time in comparison with your huge amount of money, you rely on a lot of preparatory technical studies, and then you monitor from time to time an implementation process that lasts five years.

So incarnating that strategy leads to this double change in our processes and staffing. We have started doing that. I think we are, by the way, going further in terms of understanding what types of methodologies should be used, then changing our staff. Of course this takes a lot of time. And that's why my modest perception is that if Jim really sticks to this vision of the institution, I mean if he still thinks it's the thing to do, it will take several years before the Bank is really able to respond. And it will need a lot of patience and consistency to make the institution change, because you have to change a number of the staff, and for those who can adapt themselves to a different style of working, it needs a different mind-set. Each of us knows that changing mind-

sets is complicated; it takes time; it takes new experiences; it takes failures in order to understand. So it's a long, long, long process.

And this is one of my only worries with that orientation. Jim is very impatient; he thinks that since he has said that capacity-building is the strategy—"From now on we are going to do capacity-building!"--I think he underestimates the depth of the changes that it will take in this institution. I should be sensitive to that because in my previous institution we were doing a lot of that with, by the way, very mixed successes at least, I can say. And I think I understand what it takes, how easily you can be unsuccessful in this type of business, which is probably the toughest of all, and the tremendous qualities and skills that are required from the people when involved in these types of activities.

BECKER: I would like to move to talk a little bit about, if you would, what you think your contribution has been to the Bank?

SEVERINO: Well, the easiest thing to say is to talk about the reorganization of this region. I think that I had a clear understanding of what Jim Wolfensohn wanted, and I was completely, and still am, in line with his thinking, with his attempt to link the global and the local, try to build an institution which is very close to its clients, that goes very deep into the countries, which is something that is needed because of all these changes: political environment, democratization, governance issues, which we talked about, but also this capacity-building orientation that needs people to be really on the spot. You cannot lead capacity-building when you are in Washington—you're talking about Macau or Lusaka. So you have to be there, linking the global and the local. This idea of decentralization of the networks [inaudible]

So my key contribution has been to try to get that in action and to get it done and get it happening. Has it succeeded? A bit early to say. What I'm most confident in so far is the decentralization dimension of it. We have gone very far in this region. We have gone further and faster than, I think, anybody else in the Bank. I think we have been rewarded for that attempt and at least this dimension of rooting ourselves in Asia is something that is there.

I'm less proud and less comfortable with the global thing. It's not only criticizing the networks for not working; it's even our own regional contribution to making the global dimension work. This is a very complicated thing to make work. My feeling is that the Bank is not there yet at all. There's still a lot of work to put into that.

ZENNI: You're talking on the globalization issue?

SEVERINO: The network system also. That is the organizational part or interpretation dimension of the globalization or global ambition.

But, to put it straight here, I think that implementing that system into the region and creating that flat matrix decentralized system will be my first legacy to the region. I think that the way I've tried to manage the Asian crisis would be the second one; my conviction that we could not escape our involvement in that action and the way I've pushed our troops in being extremely active. The same way we say we are present when there's a big political crisis, when we are in

Bosnia, when things screw up in Timor, when we are present in recovery operations--I felt we couldn't be absent from the economic recovery, the same way we are present for political recovery or post-conflict recovery. But at the same time I think I've done my best to push and to manage, but I'm also aware, modestly, that the weight of the G7 was very strong, and we had no way that we could escape this mission.

I would have been more comfortable if I had left the institution with the certainty that lessons would have been drawn and this would have become really the policy of the institution. I don't think it's the policy; I'm not sure if this is the policy or not. I still don't know what Jim thinks. He has himself reacted very much under the pressure of the major shareholders. And if he had to reflect now on that, would he really say that it was the right way to go? I don't know.

BECKER: I ask where you're going as in all the material we've read about you it didn't say what your next position is.

SEVERINO: Oh, I'm going into a transitional position with the French Ministry of Finance at the General Inspection, Finance, the body I was born in, if I may say so. [Laughter] I'm going to spend some time there and take time to think of my future career and what I want to do for family reasons. And it's a good opportunity to reshuffle the cards completely.

ZENNI: Just before we finish, I'd like to ask your opinion on the current Bank philosophy on development in the area of globalization, poverty alleviation, and the HIPC [heavily indebted poor countries] initiative.

SEVERINO: I have a very positive vision about the way the Bank strategy or the position of the Bank has evolved, the Bank philosophy. I think Jim Wolfensohn has a wonderful perception and vision of the globalization issue. I think he understands that yes, globalization is taking place and will take place anyway, but, too, that it's very important that this is an equitable process, that people have more confidence that it is controlled, and that it is a fair process and it's not a process where just a bunch of countries completely dominate and crush the other ones. And there the Bank has a very important contribution to make. In so many parts of the world, including in Asia but not only there, of course, the vision about globalization is incredibly negative. It's seen as a very unfair and inequitable process, and people are just scared to death. And, by the way, they are scared for very good reasons. When you see what has happened during the East Asia crisis, the fact that we came close to catastrophe in an incredible way, you can't help thinking that there's no pilot in the plane. And how would people to feel comfortable about such a major process when they feel that they have no control, that governments have no control, that nobody has any control. So if we want globalization to be successful, there's a need for a world governance system which gives a bit more comfort to the people than their rulers are taking into account, that there is more fairness and equity in the process and safety in the process.

Now, the World Bank can be part of that. It can be part of it. We can be part of it because, after all the financial transfers from developed countries to emerging economies or developing countries are a way to help these countries be more competitive. It helps manage these social dimensions of the globalization process and make it clear to governments and public opinion that they are not alone in the process.

And at the global level, this institution can be an advocacy institution. It can also convey, in a credible way, to the major governments and international community the concerns of the developing economies. It can highlight the fact that some of the major policies that developed economies are promoting have disastrous impacts on the developing economies. One little example of that: in the last meeting of the UNCTAD [United Nations Conference on Trade and Development] in Bangkok, Jim went out with a big speech about opening the markets of developed economies to the developing economies. Well, this is not the role of the Bank, theoretically. But this vision, advocating for major change in policies in the developed economies, is consistent with the vision of the global development agency that is not only just transferring money from rich to poor countries but also trying to help develop global rules of the game that are fair and equitable and is also trying to increase the exchanges of knowledge throughout the world.

So, I think this is what drives Jim. And this is a very compelling vision of the institution. Now, it is also a very difficult vision to implement. The institution is quite far from being able to deliver the way Jim would like in all this. [redacted]

[redacted]

In an institution that is as large as the Bank, there's also a minor issue, which is that the senior management team has grown wild. I don't know how many vice presidents we are now.

BECKER: Twenty-eight, counting the managing directors.

SEVERINO: Twenty-eight? This is too large a management team. This is not the major issue; however, it adds to the problem.

ZENNI: So how is the institution handling poverty alleviation?

SEVERINO: Maybe I'm too optimistic about that, but I think that there's been a lot of progress in focusing our programs and our thinking on this issue. We have spent more and more energy in the past years not only in developing plans, strategies, and measuring, but also in developing operations that really target policies.

Now, it depends what you call poverty alleviation operations. There are several ways to do that. If you're talking about operations that directly target the poorest, social safety net operations, microcredit, you name it, there's been a huge surge of these activities in the Bank, very tangible activity.

In our region right now we have made a relatively recent count of these operations. I think that's now about one third of our flow of operations, direct poverty. This is a tremendous change when compared to five years ago. We were not doing that at all five years ago, so this is a real change.

Second, you have also more in direct operations because this institution will remain involved in heavy infrastructure if there's a need for it. It will remain involved in macroeconomic policies, et cetera. Now, all these operations that are good for development can be handled in ways that are either favorable or not favorable for poverty alleviation, depending on how you handle resettlement around a dam. You can not only contribute to GDP, but also you can contribute to equity or you can, on the contrary, decrease equity and so forth. And in this respect as well, the indirect approach to poverty alleviation, I think much more awareness has come and the way we handle this operation is much better than before to the point that, as far as I am concerned, some of the countries in which we are intervening have come to fear that we would be completely ousted from these sectors by the governments because we have become so sophisticated, so complex, that for the governments these operations have become too costly. I know that in China, in Indonesia, in Thailand the governments have told us, you know, "That's over. No, we are not going to work anymore with you because you're just too much of a hassle. And you are demanding things that even in the developed countries people, governments would not do! And [we] do not have the capacity; we don't have the time; we don't have the money to do that." So we should be good at these indirect approaches to poverty, but we should also keep the balance right, and if we are dealing with very poor countries that have limited capacities and that have also their own political constraints.

ZENNI: Now, on the HIPC initiative, are we responsible for most of the world debt?

SEVERINO: On the HIPC initiative itself, I probably have less to say than many others in the Bank because we have no HIPC country right now in the region. On the debt issue itself, we even in Asia have directly been hit by the issue because of the crisis. Our countries have increased their indebtedness to a huge extent. In a country like Indonesia, because we are accused of all these leaks and been part of the corruption problem, a large part of public opinion believes that the government should not repay its debt to the Bank: "Now, if the funds have leaked by 30%, well, only 70% of the debt should be repaid. Isn't that fair?" So that is the position that you would see every day explained in the Indonesian newspapers. So there's a direct link between corruption and the debt issue, and a macroeconomic and political link.

So we have had a very hard time with that issue on pure political grounds. We have tried to convey the message that, one, even if there had been corruption, our operations had been successful in Indonesia as everybody there had seen. The country had seen a lot of benefit from it, and therefore there was no ground not to repay; second, that if there was no repayment, then the cost of borrowing from the Bank would increase worldwide. It would increase for the Indonesians themselves, so they would shoot themselves in their own foot! So they should be very careful about manipulating this sort of things. And third, that after all it was Indonesia's responsibility because we had, yes, the responsibility of the final outcome of these operations, but after all they are a sovereign country that was managing its own development. This, by the way, is a weaker argument because they say, "Yes, but it was an evil regime, and now we are a democratic country".

So we have tried to make our points and to remain and to move ourselves out of this debate. The last thing that we have done is that we have shown some recognition that there's a problem in the sense that we have been successful in getting from the international community some IDA money for Indonesia, and this highly subsidized money is kind of a recognition that there has to be some subsidization of the economy. And, after all, this is a way to refund ourselves in a shadow way. And we are bluntly explaining that this concession money that is flowing to Indonesia is part of the response to this situation. But of course it's dangerous ground because we cannot argue too much that IDA is a kind of recognition of the problem if we say that there is no problem! [Laughter]

So it's a very, very complicated issue for us. And we wouldn't like to see a country like Indonesia stop repaying us. This would be a catastrophe that would have global effects. We're aware that this would be a terrible thing to do. What I can see personally is that in the middle-income countries where there are political difficulties, where the Bank has been in bed with authoritarian regimes, where there are accusations of corruption around the place, et cetera, it is very difficult for us to get out of the debate. We are in deeply, and we have to find some kind of response. And we cannot avoid a certain degree of moral responsibility for the failures of the country. After all, if we have been a major lender, if we have been really the key advisors to governments, it things unravel we can't say, you know, "It's their fault!" Everything good that happens to a country is because of our advice, but when it goes wrong it's because they did things wrong! Okay? So we have to acknowledge this responsibility and to try to work with it.

My guess is that in Asia this problem will remain probably limited to Indonesia, especially because in the other countries the governments are going to stop borrowing. They have a very

tight fiscal stance. They feel that they are over-indebted, and so our lending volumes are collapsing and are going to continue collapsing next year. We lent about 10 billion dollars last year to Asia; I think we lent this year around four, and I would say that kind of equilibrium level would be more around two and a half in the longer run. There's going to be a major, major reduction. Major, major, major! So this region now is going to have to face a very different strategy challenge. Well, this is where we have to make it clear that we have to do what Jim Wolfensohn says we have to do.

What I observe is that the level of demand for World Bank loans is collapsing, but the level of demand for World Bank services is very high, but it's non-lending services. It's capacity-building. It's environmental advice. And so, if we are a global development institution, we should not be that worried about our level of lending to Asia. We should just say, "Look, you know, this is a phase in their macroeconomic history where their lending need is very low. So be it!"

Now, the type of services that we can deliver, if we are focused on knowledge, there are many other instruments to deliver knowledge than loans. And, after all, loans are rather cumbersome and difficult instruments to do that, so let's be who we claim we are, and let's not complain about this collapse in lending volumes. Tomorrow there will be another crisis, and suddenly there will be a big surge in lending demand from Asia. And there will be! And lending volumes will go up again. So it's a phase. It's a phase.

ZENNI: Would you reflect on your tenure here, how you feel about it?

SEVERINO: It's a wonderful institution. If it did not exist—we need institutions like the World Bank in this globalization process. If the international community had to start everything from scratch today, the system that would be rebuilt would probably be different. The types of missions, the type of structures, et cetera, that would be different. But we inherit from the past; these institutions have evolved tremendously and the environment has evolved tremendously. If the World Bank did not exist, something that would probably be different would be rebuilt to address these changes of the decentralization. I have absolutely no problem with this institution, its meaning, its raison d'etre in this world. The problem that I may have, the questions I may have are more at a lower level: what are the right things to do at a certain moment, are we making the right managerial decisions, so forth. But the essence of the institution, I think, is extremely solid.

ZENNI: In terms of the relevance of the institution?

SEVERINO: The relevance, yes. I would bet on this institution much more than on the United Nations system. Very, very clearly.

BECKER: If you do look at the history of the World Bank as an institution that's been around for over 50 years and originally designed to do something very specific at the end of the Second World War, it's been, I think, rather entrepreneurial. Also, Wolfensohn's approach in the way he has looked at the change in the environment and tried to take the institution and fit it into that kind of environment. The most successful presidents of the Bank have all done that. The Bank

has changed very much since [Robert S.] McNamara, but his approach and his sense of thinking large thoughts about where it fits, is also still relevant.

SEVERINO: There's a lot of logic in the way the World Bank has evolved since the beginning. It's kind of step by step. It's going in a very consistent direction, when you look at it.

BECKER: I see it as being a sort of dynamic between the institution and thinking about development. It's not the only place that people think about development, so its practices have an influence on how people think about development. But then outside the Bank there are people thinking about what's appropriate for development, and that influences the Bank, and there's this constant interplay over time.

Well, thank you very much.

SEVERINO: Thank you for your patience. I admire it.

ZENNI: This is a wonderful addition to the Oral History Program. Thank you so much for your contribution.

[End Side B, Tape 2]
[End of interview]