

THE WORLD BANK GROUP

ORAL HISTORY PROGRAM

Transcript of interview with

EDWIN R. LIM

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By: William H. Becker & Marie T. Zenni

EDWIN R. LIM

Q: Good morning, Mr Lim. Today is Wednesday, October 30th 2002, and I'm William Becker with the George Washington University and the Business History Group.

Q: And I'm Marie Zenni, task manager for the Bank's oral history program.

A: And I'm Edwin Lim. I think my colleagues call me a retiree.

Q: And former Country Director in the Bank.

Q: OK, very good. Mr Lim, we'd like to begin by briefly covering your career prior to joining the World Bank. Mainly, we'd like to begin by asking about your educational background?

A: Maybe before that, let me say something, because it's always an aspect of the Bank that's somewhat controversial. Maybe I can refer to a particular incident back in 1980 when we went on the First Economic Mission to China, and the Chinese were very impressed about the range of nationalities. We had Pakistani, Indian, American, British, French, and so on. But then they got to the question of where we were educated. It turned out that about one half of the World Bank team had received Ph.D.s from Harvard. Thus there is always a criticism of the Bank that, despite this sort of apparent diversity, we're all from the same schools. OK, I'm an undergraduate of Princeton, and a Ph.D. in Economics from Harvard, and I had a year at the London School of Economics, which is fairly standard as a Bank education. But I would like to point out that I was born in a village in Zamboanga in the south of the Philippines. You read about it today only because of the terrorist activities there. My grandfather was a laborer who was a stowaway on a boat from China to the Philippines and ended up in Zamboanga. My father started as a small trader. I still have a photograph of

myself in the village, 4 years old, without any shoes. I think it's important that a lot of us may have ended up at Princeton and Harvard, like many of my colleagues in the Bank, but we actually come from very different backgrounds. Having grown up in a village in Zamboanga in the Philippines, then spending some years in Manila before I got a scholarship to go to Princeton, gave me a perspective quite different from most of the other Princeton graduates, and Bank staff. I think that's an important thing in the Bank that's still very valuable – the fact that the staff do come from very different backgrounds. It is not just nationality, but also income level, cultural, family and personal experiences. And it is amazing how well we can work together. Sometimes, while you are in an elevator in the Bank, you suddenly realize how many different languages are being spoken by the people in that elevator. But once you get into meeting, you never think, this guy is Pakistani, or he's from Iran, and so on – you're just Bank staff. And of course there are certain characteristics – this guy talks too much, or this guy is arrogant, and so on, but we are never conscious of his nationality, cultural or other background.

I think that we are quite unique in the extent of our diversity, which is very important and is a real strength of the Bank. I think it's probably correct that we have recruited too many from the same set of universities, but if we are recruiting the best and the brightest of the world, we will end up recruiting a large proportion from, say, the top five or six universities in the world. Maybe we shouldn't put such emphasis on education by the normal criteria, but I just want to say I feel very much that my own personal background is a very important factor in the way I've worked in the 30 years that I was in the Bank.

Q: Having said that, what led to your decision to join the Bank in April 1970?

A: Well, I think, first of all, it started when I decided I wanted to work in development. I went to Princeton to do a Physics degree. But taking advantage of the liberal arts education I also took courses in social sciences and began to be interested in development. So I made a basic career decision, at Princeton, to go into development. After I graduated from Princeton, I applied to do economics at Harvard, and after that, there was no question that I wanted to be in the economic development field.

Q: Now, what led you to change from physics to economics? What prompted this interest in economics after having been in physics?

A: Partly I can relate it to my own background in poverty and seeing the possibility – of course, based my own experience – of growing out of poverty through education. I got out of poverty through education, and so I could see the possibility of development and education bringing millions of people out of poverty, and moving into a different world. From the very beginning, within economics I was more interested in development than the more theoretical aspects of the discipline. My own background gave me a sense that it would be a satisfying career, and a satisfying field to work on.

Q: And so you studied developmental economics at Harvard?

A: Yes. I got my Ph.D., and then I went to Hong Kong University to teach for a few years. Then I learned about the World Bank through my brother-in-law, who was a Rhodes Scholar. He had applied to the World Bank after graduating from Oxford and was invited to join the Young Professionals (YP) program, but decided not to come. But he told me about the Program. I must say, when I was offered a place on the Young Professionals Program, I was at the University of Hong Kong and my idea then

was to take perhaps a couple of years from academic life and get some experience in development at the Bank. You have to remember, this was the 1969 World Bank. It was a fairly small and not very high-profile institution. McNamara had just arrived and the changes he introduced were just beginning. It was more like an investment bank today. It seemed a rather elitist institution. However, it seemed McNamara was taking the Bank in a very interesting direction, and certainly moving much more into development, working with poorer countries, and tackling poverty and issues such as health and education. For someone interested in economic development, it seemed a good place to spend a couple of years and gain some practical experience.

Q: You joined what proved to be one of the earlier classes of the Young Professionals Program in 1970. How did this experience influence your later career in the Bank?

A: The YP Program? Oh, very positively. I have great admiration for the YP Program. I think it's very useful. The YP Program allows one to go into different parts of the Bank to see how it actually works. And also, it's not a kind of extended orientation, but an orientation by doing, so you're really plunged into actual work. A week after I joined the Bank, I was on a plane to Fiji. Fiji had just become independent, and I was a member of the first economic mission to that country. Obviously, it was on a very different scale from some of the countries that I worked on later. But I was immediately plunged into doing the economic analysis. It was a sugar-dependent economy; the issues were how to diversify away from sugar and the challenges of independence, particularly with the British colonial bureaucrats leaving. How do people there take over? Then, of course, how to deal with the racial tension that still exists even today, the balance between the Fijian and the Indian populations, with the

small minority of European and Chinese populations holding a lot of the power and economic wealth. Looking back, I think I have been very fortunate in the Bank to have had the opportunity on several occasions of working with countries embarking on a completely new phase in their history, and to have had the responsibility of helping to formulate advice on how to meet the challenges of this new phase. That pretty much set my career in the Bank. As we shall see later, I have been particularly fortunate in having been involved in several 'Firsts' in the Bank. The other decision that I made following the experience of working on Fiji and the YP Program was that I wanted to do country work. So in my career in the Bank, I've never gone into sectors; I've never gone into research; I've never gone into central services, e.g. finance, administration, etc. My work has always been country-specific, because I felt that that was the point of the interface of the Bank with our clients. I always wanted to work with the client directly, not indirectly. So that has pretty much determined the nature of my career.

Q: In 1971, you began as an economist in the West Africa department. What were the highlights of your first two years working on that region?

A: This was just after the Civil War in Nigeria. Again, it was the situation of a country entering a new phase. I did not know much about Africa at the time. In retrospect, I am very happy about this, my first assignment in the Bank. And as a result, my career in the Bank included a lot of work on Africa, particularly Nigeria. In fact, with the combination of the early 1970s and my later tenure in the 1990s, I had almost 9 years on Africa and Nigeria which I think very much rounded out my career. After 30 years, my main work in the Bank was on China, India, and Nigeria; these are three very large

countries. Someone committed to development and poverty work cannot ask for a better combination than that!

Q: Was this what prompted your move to the field in 1973?

A: I should explain this, because perhaps it's not in the institutional memory any more. My move to the field in 1973 was actually one of the very early experiences in decentralization. What the Bank did in 1973 was an experiment in moving the program division to the field. So the entire Nigeria program division was moved to the field. At the Bank then the program division did the economic work, did the strategy work such as country assistance strategy, and basically managed the overall relationship. Even then, we felt that we had to be closer to the client, at least, in terms of managing the program and the strategy. I think they had a somewhat similar experiment in Zaire at about the same time, but we were the main experiment. The entire Nigeria program division, including the division chief, the economists, and the loan officers, were moved to the field with just one loan officer at headquarters being the link. The idea was not very different from that of the recent decentralization of the Bank, but this experiment in the 1970s failed. It failed miserably, and there wasn't any other similar experiment for the next 20 years. Our program divisions or their equivalent since then were always at headquarters until after Wolfensohn came and we had the major decentralization of Country Directors to the field in 1996.

Q: Now, what were the issues you dealt with while working in Nigeria?

A: Well, this was the post-war economy, mainly the new oil economy. Nigeria had oil at the time which was very cheap and dominated by the oil companies. My major responsibility was to work closely with the planning commission of Nigeria. I

remember one very late evening at the Planning Office of the government trying to sort out the resource balance, budgets and foreign change accounts. After looking at the numbers, the head of the planning office and I both thought, 'If only oil were \$2 a barrel, all Nigeria's problems would be over.' Oil prices were a little over \$1 a barrel then.

Q: This was right before OPEC raised the price.

A: That's right. Many years later, oil prices went over not just \$2, but \$30 a barrel, and yet the Nigerian economy completely collapsed. But in the early 1970s the main challenge was the post-war reconstruction. The major issue was how to make maximum use of the new oil resources to diversify the economy. Apart from oil, the Nigerian economy was highly dependent on cocoa and a few other agricultural crops. It was entering a new period, one of a unified Nigeria. That was the other issue, because before that they had three regions, east, west and north. Of course, the east, which became Biafra, had broken off, which led to the civil war. So, the issue was how to work with a unified Nigeria, how to ensure a coherent country. The political situation was very messy. In fact, the effort to build a unified Nigeria was never successful, and from the regions the country broke into states, and then into more and more states. There was increasing fragmentation rather than unification. Nigeria to this day has never been able successfully to deal with the diversity problem. It continues to be not a very viable unified country, with the different racial groups who are still very sensitive about each other.

Q: What influence, if any, did these early assignments have on your thoughts on development and/or your later career?

A: What I learned, probably above all else, was the importance of human resource development. In Nigeria, you could see already that that was what was lacking. And the different levels of education among the different segments of the population, particularly among the regions. That obviously was part of the problem in the east, among the Biafrans, where the level of education is much higher than, say, in the north with the Hausa and the Fulani. In development, achievement of a minimum level of education among the masses seems extremely important. The other lesson from my Nigeria days is the need to have political stability. Over the past 30 years, economic conditions have been very favorable in Nigeria on several occasions. For example, when oil prices began to rise in the late 1970s, Nigeria had the financial resources, but it did not have the political stability and the political leadership. What today we term governance. Even then, it was clear that it was very difficult to have an effective governance system, from political leaderships to a clean government, absence of corruption, and so on. In the 1970s, Nigeria – you’d probably be surprised – was very peaceful and my impression was that corruption was not very prevalent. I guess there wasn’t a lot of money to go around. And it was very crime-free. My family and I, with two very young children, used to drive around in our car all over the country without any fear. By the time I returned to Nigeria in the 1990s, as the Director of the Western African Department, the government would not allow me to drive from the airport to downtown without an armed guard. My overriding impression from my two tenures in Nigeria is not only the failure of Nigeria, but also the failure of the Bank; that we were not able to respond to Nigeria. Now, as I will emphasize later, the success of the Bank depends to a very large extent on the client. I think we can only help those who want

to help themselves, and that's really true. But nonetheless, I think whosever fault it is, Nigeria obviously has failed over the years. In my career in the Bank, I worked on Nigeria as my first permanent assignment and then 20 years later, as a Director, and I feel very much that the Bank has failed, and I have failed. Perhaps there wasn't anything we could do, but, looking back, I think the Bank of today would probably have been able to be more responsive, maybe more concerned about governance issues and so on. Perhaps other features of the Bank today would have made us less able to help Nigeria. But certainly, we were not able to help Nigeria in the two instances that I worked on Nigeria, in the 1970s and in the early 1990s, when I was Country Director.

Q: In July 1976, you returned to headquarters.

A: But first, we should talk a bit about the failure of decentralization.

Q: Oh, yes, pertinent to the Nigeria situation.

A: That's right. I thought we should just come back to this. You know, it was a pilot, and it failed, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Perhaps the Bank

was not really ready for such a degree of decentralization as well. In any event, as a pilot in decentralization, it was a complete failure. The Bank's work in Nigeria and the

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relationship with Nigeria suffered significantly during this period of ineffective decentralization.

Q: So would you say this was another lesson? Is what you took away also the importance of who was appointed to these positions?

A: Absolutely. I think so, even when we come to Country Directors. It's of course always true that when you decentralize, you give someone in the field a lot of power, but the risk is that you appoint the wrong person.

Q: Could one of the underlying causes for this have been at that time, during the early McNamara period in the early 1970s, the emphasis on quantity and not very much on quality, perhaps?

A: No, no, that was not it at all, because that was not at all an issue. I know some people felt during McNamara's era that the Bank relied too much on quantification. I guess this is something McNamara carried over from his Vietnam War history

Q: But not to the detriment of quality?

A: No, I never felt it was an issue of quantity versus quality. I never felt that at all. The Bank was growing very rapidly then, and so obviously quantification was important. The Bank certainly didn't have the kind of mandate that we have today, so McNamara had to gain the mandate to be the premier development institution in the world. The failure of the decentralization pilot in Nigeria was, in my mind, absolutely not related to any issue of quantity versus quality. Actually in the 1970s, there was a similar experience in the Bank with a very high degree of decentralization, which was the Indonesia example. In that case, Bernie Bell was put in charge of the country's program and stationed in the country itself. During my time in the Young

Professionals Program, I worked on Indonesia, both programs and projects. Bernie had full authority, and he reported directly to McNamara. This was an extreme form of decentralization, because Bernie bypassed everybody – vice-president, programs director, etc. – and reported directly to the president, McNamara. And maybe that was the clean way to do it, because although we decentralized the program division to Lagos, there was still the other structure of the programs directors and vice-president and so on. But I would probably attribute it, to a very large extent, to the personality; Bernie Bell.

Q: So, to select someone going to Nigeria, for instance, today, what would be the criteria and attributes for such a person?

A: Well, I think, first of all, you have to have a very committed person, because Nigeria's a very difficult place. The person would need to be tough. Certainly any kind of a quantitative indicator of performance would not be appropriate. It would be very difficult and I don't think Nigeria is getting that much attention. What a lot of people feel, probably with some truth, is that it would be very difficult to help Nigeria right now.

Q: Even with the election of a democratic government?

A: But it's not clear how much control President Obasanjo has. I haven't followed developments in Nigeria much these days, but I do not have the impression that Nigeria is out of the woods yet, particularly on the question of political unity.

Q: In July 1976, you returned to headquarters to work in the East Asia and Pacific country program department. What prompted the regional change in your assignment, and what were the main issues you focused on during that time?

A: Well, what prompted the regional change? When you come back from the field, you essentially see where there are available assignments, but in my case, it was fairly straightforward, because coming from Asia, I've always had a very strong interest in Asia and, in the late 1970s, a lot of interesting economic changes were taking place in East Asian countries. So I came back to headquarters in 1976 as lead economist in the division that included: Thailand, Laos and Vietnam. Thailand obviously was beginning to take off. At the same time, also, we knew that Vietnam was somewhere in the background, with the possibility of the Bank being more active soon. Vietnam was a member, but it was South Vietnam that represented the country, and we had activities there. It wasn't a hard choice at all. In Thailand, the main issue, actually, was similar to that in Nigeria, but in a different way. It was regional disparity. The Vietnam War probably exacerbated regional disparity...

Q: Within Thailand itself or...

A: Within Thailand. Development was very much concentrated on Bangkok and the surrounding areas, and the north-east was extremely poor. Now, because of the Vietnam War, the Americans had built a lot of infrastructure – air bases, roads – in the north-east, but there was no development. You had a classic case in Thailand of essentially very poor north-eastern people coming down to Bangkok to work as maids and low-income workers and prostitutes, etc. Although if you look at the aggregate statistic, it appeared to be a fairly fast-growing and developing country, it obscured a lot of very poor areas of the country, really very, very poor. My first responsibility after returning to headquarters was to lead a team to prepare a comprehensive report on Thailand. I don't know whether you have seen a copy of the report

Q: Yes, we have that.

A: The report itself was almost entirely on poverty, particularly on the regional dimensions, how different areas of the country benefited differently from growth. The report also included a fairly comprehensive discussion of what we would today call governance. The report included an annex on Public Administration. There is a little story about this report on Thailand that is indicative of how much we have changed in the Bank. Because we were talking about a development strategy that perhaps would divide up the benefit of growth a little bit more evenly among the different segments of the population, we had given the report the title *Towards a Development Strategy of Full Participation*. McNamara liked the report and wanted it published by Johns Hopkins. The Bank publisher, however, vetoed it because he thought the report, in particular the title, was too socialist, and he asked whether we could change the title because he thought 'full participation' implied too much of a socialist tendency. We would not change the title, so the report was eventually issued only in 'Red Cover'.

Today a Bank report would probably not be considered complete unless there was a discussion of participation, but in the late 1970s the term 'full participation' created problems for the Bank publisher.

Q: Did the issue of governance come up in this report as well?

A: In the Thailand report there was an annex on public administration, and certainly one of the issues we were looking at was governance. The Thai public administrative system was a mixture of the British system and their own traditional system, with the king and so on. And we thought there were, in fact, a lot of areas of inefficiency. In the area of governance the report certainly didn't go anywhere near as far as it would

go today, but it was really an attempt to see how what we call public administration had an impact on development, and how it was affecting the nature of development. Political stability wasn't the issue, because Thailand had a king, and at that time it was certainly very stable. I think the issue there was the bureaucracy, and particularly these regional differences, because most of the bureaucrats and most of the power elite were Bangkok people – it was a country very much run by Bangkok-based people, and so all the development concentrated on Bangkok. It was almost colonial in the sense that the north-east was a kind of a primary surplus region accounting for a lot of the exports from Thailand, but there was exploitation due to the pricing between industrial products and primary products and so on. So within Thailand itself, there was almost a kind of a colonial structure which benefited Bangkok very much at the expense of very poor regions such as the north-east.

Q: A year later, in early 1977, you were part of the mission that visited a unified Vietnam and consequently produced the Bank's first economic report, *The Socialist Republic of Vietnam: An Introductory Economic Report*. How was this report received within the Bank and within the international community?

A: Attention was paid not so much to the substance of the report, but to the fact that there was a report at all. McNamara was president, so unfortunately that really got into the picture, that the World Bank under McNamara was sending a mission to Vietnam. I admire McNamara for his very tough decision that the World Bank would initiate operations in united Vietnam. Of course, the accusation was that McNamara was trying to compensate for his sins during the war. The initiation of the operation in 1977, a year after the fall of South Vietnam, beginning with the first economic

mission, was very controversial. It was very much against the wishes of the US administration for us to be dealing with the Socialist Republic of Vietnam, the unified Vietnam. But McNamara was adamant. There was enormous pressure on the Bank, the usual thing, you know, the U. S. Congress was going to cut off International Development Association (IDA) support, and so on, and McNamara had to go to the Hill to testify about his decision. But in McNamara you had a person who could stand up to the U. S. Administration, and he did.

Q: So it took courage on McNamara's part.

A: Oh, very much so, very much so, and also later on China as well, but probably more so on Vietnam, because of his personal history. He was very determined that he was going to bring unified Vietnam into the Bank, but he was also very sensitive to possible exploitation of this. McNamara wanted our work on Vietnam to be as low-key as possible. But it did not prove possible. The departure of the economic mission to Vietnam, in fact, was a banner headline on the front page of the Washington newspaper. It was a snowy day in Washington, so there wasn't much news, and we unfortunately became the headline news. The report was a very early attempt in the World Bank to learn about the socialist economies. I don't think we really made a lot of contribution to solving the economic problems of Vietnam. It was probably more important that it prepared us to deal with China, because it obviously had a very similar economic system, the centrally planned Soviet type. In fact, one of the side effects of working on Vietnam resulted from the fact that there wasn't any easy way of going to Vietnam except through China. So I remember I had to go to the Chinese liaison office in Washington to talk to the Chinese officials there about us wanting to

start work on Vietnam, and the only way to get to Hanoi was through Beijing. Now, at that time, relations between Vietnam and China were extremely good. In fact, I remember the man who met me said, “Vietnam and China are the closest of friends and neighbors, and we will do anything we can to facilitate your work in Vietnam.” So the Bank economists working on Vietnam had the opportunity to go through China and, of course, we began to make stopovers and used the opportunity to visit Beijing and other cities. The economic work on Vietnam, therefore, was significant in that it was the start of the Bank’s work on an Asian socialist country. At that time, apart from Hungary and Romania, we had no relationship with the socialist countries, and even there our economic work was quite limited.

Q: Poland?

A: No, Poland was much later. I think Hungary and Romania alone. It was really very interesting, for me certainly, to start learning about how a Soviet-type economy works, and seeing the problems and beginning to understand the inefficiency and defects of the system. I think the first Vietnam report was an important report, but it was certainly not a report that I personally would be very proud of because, in fact, I don’t think it broke a lot of new ground.

Q: That was my next question. What impact, if any, did the report or just the mission itself have on Vietnam?

A: I think the mission itself – having Western economists coming to study the economy and having a dialogue with their planners and economists – was very important. You have to put it in the context of 1977. In 1976, the North Vietnamese had come down and conquered the south. They fought the Americans, and here they were seeking

assistance from an American-dominated institution. They were trying to begin a relationship. The fact that we sent a mission was a very important sign to the Vietnamese that the outside world, the Western world, was ready to work with them. It was also the beginning of the process by which the Bank became truly a World Bank. Vietnam was followed by China, and later, of course, Russia, the rest of Eastern Europe and central Asian countries in becoming active members of the World Bank. Having said that, the Bank's first involvement in Vietnam was very brief, it lasted, I think, about a year and a half or so. We did two reports on Vietnam, the first introductory report, and another report which was never finalized or issued because of what happened in Vietnam. At the time of the second economic mission, relations between Vietnam and Cambodia were getting very tense, and they were diverting a lot of resources to the preparation for war. So in the second report, we were pointing out that despite their alleged commitment to development they were really diverting resources to military purposes. And I remember in a mission that I had to go on – I think it must have been about 1978 – I went to see the governor of the State Bank of Vietnam who was our main interlocutor. I had to advise him of the position of the World Bank, that if Vietnam were to go to war in Cambodia, the Bank would be unable to continue operations in the country because of the lack of commitment of the government to the development program. At that time, we just felt that they were not devoting that many resources to development any more. A lot of the counterparts we worked with on previous missions were all sent to the front. We had actually responded very quickly to Vietnam once we initiated operations. By then one agricultural project had been approved and several others were under preparation. The

Governor's response to my statement that we would cease all operations if war was started with Cambodia was very significant. He said, "You can see that we haven't completed our reconstruction program, so why would we want to invade another country?" He didn't say, "We are a peace-loving country, we will not invade our neighbor." His answer left open the question of what Vietnam would do once it had completed its reconstruction program. In any event, the next day I took a plane out of Vietnam. I landed in Bangkok, and immediately saw the headline in the local newspapers: "Vietnam invaded Cambodia." So that was that and we ceased operations in Vietnam for about ten years I believe.

Q: That would've been in 1979.

A: Yes, 1979. During this period I was working on Vietnam and also on Thailand.

Q: In late 1980, you jointly led a mission to China, which produced the first – again, another first – World Bank economic report, *China Socialist Economic Development, 1981*. In your opinion, how was this report received in China?

A: Before we get into the first report perhaps I should say a bit about the background of China's membership of the Bank, and the initiation of the World Bank activity in China. It was quite important there in that this was the late 1970s, and China began its reform program in a very tentative way, but obviously engagement with international organizations, hitherto associated with the West, was part of that thinking, through membership of the International Monetary Fund (IMF), the World Bank, and so on. And so, we knew that in the late 1970s this thinking was going on in China. I personally got involved because of the work on Vietnam, as I mentioned, I was traveling through Beijing on the way to Vietnam and on a few trips, in fact, took the

opportunity to travel around China a bit. I think the Chinese government obviously knew this. So in the summer of 1979, during one of my trips through Beijing, I was invited to meet a small group of Chinese officials considering the possibility of China's membership of the World Bank Group. This group comprised officials of the Bank of China, Ministry of Foreign Affairs and Ministry of Finance. Although I was never told the purpose of the group, they had many questions for me such as what the World Bank Group was all about, what membership meant, what was the IDA, what were International Bank for Reconstruction and Development (IBRD) loans, what was the process of becoming a member and obtaining an IDA credit and IBRD loans, and so on. So clearly, they were studying the question of possible membership of the IMF and the World Bank. I understood they had also studied the experience of Hungary and Romania in the World Bank. I think the fact that we had also responded positively to Vietnam, although it was a communist country, was also a factor. So clearly, the Chinese, by 1979, had made some sort of internal decision to consider membership of the Bank and the IMF. The formal approach came in early 1980, perhaps March – I forget which month. The Chinese ambassador in Washington asked to see McNamara, and told McNamara that the Bank of China would like to invite McNamara to visit China to discuss a relationship between China and the World Bank group. The invitation did not come from the Chinese government, which was very cautious, but from the Bank of China which was not the central bank but the foreign exchange Bank. The invitation, of course, stirred up quite a bit of activity within the Bank. It was also a complicated situation, because China was a founding member of the Bank, but the China chair was taken up by the Taiwan government at that time, as it had

been in the UN. So it was an issue not of membership, but of a change of representation. There were complicated issues of assets and liabilities involved, more so because most of the assets were with the IMF, whereas the liabilities were to the World Bank. So negotiations were not just with China but with Taiwan also. Burke Knapp, in fact, former senior vice-president of the World Bank who had had a very good relationship with Taiwan in that position, was brought in to handle some of the negotiations with Taiwan. But I must say, it was really a tribute to McNamara's vision that while this was going on, he really wanted us to begin preparation of a full program in China. That's how I personally got involved. On the weekend after the invitation from the Chinese Ambassador, I was at a vacation house in Virginia and was scheduled to fly to Thailand on Monday morning on an economic mission. But on Sunday I got a call from the secretary of Shahid Husain, then the vice-president for East Asia, who told me to cancel the trip to Thailand and to come into the office on Monday. From that Monday in early 1980 onward, until a decade later in 1990, I worked full-time on China. On that Monday I went to see Shahid who told me that McNamara wanted a comprehensive program for China prepared even before his visit. McNamara wanted an economic report or memorandum, so at least we could understand a bit about China. He also wanted a country assistance strategy paper in order to propose a program, a strategy for how to deal with China, and a paper on IDA eligibility because, obviously, the Chinese would want to know whether they were eligible for soft loans. And these papers all had to be done in a few weeks because McNamara wanted the papers with him when he arrived in Beijing. Well, we did it actually, and somewhere in the Archives, there should be an economic memorandum

on China, a Country Strategy Paper, and an IDA eligibility paper prepared for the President's visit to China in 1980. I was fortunate in that I was a member of the team for the previous WDR – the World Development Report 1979. The World Development Report was on human resource development and I was asked to do a section on China, so I had started to do some work on China. But we did produce, in four or five weeks, an economic memorandum, a strategy paper, which in fact proposed that we concentrate mostly on infrastructure, transport, power and then gradually move into some of the other areas, such as agriculture. And we did the paper on IDA eligibility, which demonstrated that China was eligible for IDA, but as a blend country, not as a pure IDA country since we also established that China was creditworthy for IBRD lending. McNamara had a very successful visit to China, together with the General Counsel, the Chief of the Finance Complex, the East Asia regional vice president, Shahid Husain, and Caio Koch-Weser then McNamara's personal assistant. Planning for a full team to work on China started as soon as the team came back. Caio Koch-Weser was appointed the program division chief, and I was appointed the senior economist responsible for economic work and policy dialogue. In July 1980, a number of the East Asian project division chiefs, Caio and I went to China on a mission led by Shahid Hussein, and that essentially launched the work on China. We explained to the Chinese authorities that the first step was to do an economic report to establish China's eligibility for borrowing, and also to determine what sector we would be lending to and so on. We told them this had to be based on extensive field work, i.e. a team of economists would have to visit China and conduct detailed investigations. Although they were aware that this was a necessary first step,

they were extremely cautious about this, especially those at the working level who had to deal with the Bank mission on a day-to-day basis. There was, therefore, a lot of discussion during the July mission on the details of the mission. Within the Bank, too, there was some nervousness. I was told to lead the mission in the field but senior management was concerned that I was too junior for the task, and that I was an overseas Chinese. So the chief economist of the East Asia Region, Parvez Hasan, was formally appointed chief of mission, although he was only to join the mission at the end, together with Hollis Chenery, the then chief economist of the World Bank. The mission itself took three months, from October to December, 1980. During these three months, we had waves of teams – e.g. energy, transport, education, health and population, general economics, etc. – rotating in and out of China for about a month each. Each of these teams was led by the top sectoral economist in the Bank. For instance, Vincent Hogg in transport, Bernard Chadenet (then a vice president) in energy, Mats Hultin in education, Adrian Wood in general economics. The whole process was really equivalent to the World Development Report because we were able to pull many of the top experts from different parts of the Bank. We used very few external consultants because we wanted to build up internal knowledge of China. So the first economic mission to China was really a team put together from different parts of the Bank, the best and the brightest within the Bank, and obviously, everybody was interested in going to China. For all of us, it was an extremely challenging and exciting occasion.

Q: Can I ask, if you speak Chinese? If so, did you learn that at home?

A: Yes, yes, as an overseas Chinese I went to Chinese school, but I learned a lot more working on China. Reading was not a problem and I knew Mandarin, but was not very fluent. In the ten years I worked on China, I got to a point where I could make a speech in Mandarin. But even when I went there the first time, I could communicate with them. Being an overseas Chinese, however, was an issue for me working on China. Even the Chinese authorities were quite skeptical about whether the Bank should send a young overseas Chinese to lead the mission to China. McNamara and Shahid were quite determined to have me work on China. So McNamara took the precaution in his private meeting with Deng Xiao Ping in April 1980 to ask Deng: “Would you have any objection if we have an overseas Chinese lead the economic work on China?”

Q: In April 1980?

A: Yes, 1980, during the first visit. In response to McNamara, Deng responded: “You send your best people, wherever they come from.” McNamara told me this when he visited me in India many years later. Even then McNamara was impressed with Deng’s pragmatism. McNamara also told me that at the end of his private conversation with Deng, Deng concluded that: “We understand the World Bank is a very important institution and will be of great benefit to our development and our reform process. We would be very pleased if you decided to work with us, and we would be able to achieve our goals faster. However, if you decide not to work with us, we will eventually achieve our goals also.” There was that determination from the outset to make full use of the Bank, every aspect of the Bank: the Economic Development Institute (EDI), technical assistance, lending, policy dialogue, everything. This

included economic work, the one activity of the Bank that they initially felt was the price they had to pay to borrow from the World Bank and which turned out to be something that they valued most.

Q: How was the report received in China?

A: It was extremely well received in that it was the first time that an external agency had taken an objective view of where they were and what they had achieved relative to other countries. In the report we made a lot of comparisons. There were two major reports done on China in the 1980s, the first report based on the 1980 economic mission, and the second based on a mission in 1984 and published in 1985. The 1980 report was basically to introduce China to the world, to describe the Chinese economy in analytical terms, but particularly for the Chinese to see how they compared with the rest of the world in terms of level of per capita income, development, industrialization, pattern of development, etc. So it was a multi-volume report. In fact, the US-China trade consul in Washington reprinted the report and sold it for five or six hundred dollars a copy. Obviously, a lot of people in 1980 were interested in China, and this was the first report available from an official agency based on fieldwork and actual statistics, and with the cooperation of the Chinese government.

Q: And with a lot of fieldwork.

A: That's right, yes, three months of fieldwork. We visited Gansu, a very poor province, Hubei, an average province, and Jiangsu, a rich province, as well as the municipalities of Beijing and Shanghai.

Q: So the Bank helped China engage with the outside world through this report.

A: That's right, and it taught them a lot about their own economy from a Western economic perspective.

Q: So do you think that had a long-term impact? Was this a baseline from which they started doing their own development planning, or...

A: The word baseline is correct. It formed a baseline for them, and they were very surprised to find, or to recognize certain conclusions that we had drawn which were there in harsh statistics about how they compared with other countries, because it also essentially confirmed what their leadership had already discovered, that they were way behind. A major reason why the Chinese embarked on such aggressive reforms in 1978 and 1979 was when the leaders began to travel, and they saw how far away places like Taiwan were ahead of them. I remember when Deng Xiao Ping went to Singapore. These were countries they had considered backward countries. They discovered that the rest of the world had passed them by, and even south-east Asia was way ahead of them. So they were really very shocked, and I think our report documented that even further, but also began to give them suggestions of where they might go – but in a fairly modest way. The hard evidence of how the Chinese leadership received the first report came in 1983 when the then World Bank president, Tom Clausen, had a meeting with Deng. At that meeting, Deng told Clausen “You had done a report in 1980, and we found that report extremely helpful, but that report was about China today.” He said, “What we're interested in now is China 20 years from now. We therefore would like the World Bank to come to tell us how, from your viewpoint, China should develop to reach our objectives for the year 2000.” At that time, Deng had just launched in China an extremely ambitious program to quadruple

per capita income in twenty years. So he was inviting the Bank to provide advice on how China could achieve its objectives. The person most interested in the Bank's economic work, however, was the then Premier, Zhao Ziyang. He was at the meeting between Deng and Clausen, and after the meeting he drew me aside and said to me "The first report was very well done and useful to us, and you must do an even better job on the second report."

Q: So this led to the 1985 report on long-term development issues and options.

A: Yes, those were the two major reports of the 1980s.

Q: While we're on that 1985 report, what was the impact of that report's recommendations on China's economic reforms?

A: The 1985 Report essentially drew up the blueprint for Chinese reforms and development over the next twenty years. As documented in studies such as that by Michael Oksenberg (member of the National Security Staff under Carter) on "China's Participation in the IMF, the World Bank and GATT," the report had a major impact on Chinese policies. In fact, it's documented in Oksenberg's book. The then Prime Minister Zhao referred to the 1985 report frequently. In fact he sent it to all the members of the planning commission to study. There's no question that the 1985 report on long-term development issues and options had a very major impact on China

Q: Could you talk a little bit about your role as senior economist and the Bank's new relationships with China?

A: In starting the work on China, we had essentially two people leading the work: Caio Koch-Weser was the program division chief leading the work on the lending side, the operations side, and I was responsible for the economic and sector work and for the

policy dialogue. It was a very good partnership. Caio and I have remained good friends through the years and often worked together on China even after we left the Bank. The remarkable thing about China throughout the 1980s was that they were so hungry for advice on everything, but particularly on economic policy, on reform, and so on. So my role as the lead economist on China was, in my view, the main channel to provide advice for China. Now, the advice was not necessarily my advice. Rather my role was really to bring to the Chinese issues some of the best brains in the world. A very important part of my work was in organizing formal and informal forums for international experts to advise the Chinese leadership. For example, in the early 1980s, China reform was still in the initial stage, so we brought in a lot of experts from Eastern Europe. We brought in Russians, Polish economists, East Germans, economists from the East but living in Western Europe – people with first-hand experience in reform in Russia, in Eastern Europe. We brought them to China for very confidential conferences and private discussions to share their experience of success and failure of reform in Russia and Eastern Europe. The Bank was a channel; it was truly the knowledge Bank in those days, to China. This was very much demand-oriented; we would bring to China experts in areas on which they needed advice. The Chinese, for example, were very interested in development in South Korea and Taiwan. So we brought to China top officials from those countries as World Bank consultants – they would not be able to come to China otherwise. The Bank was playing the role of the intermediary, and I was managing this process. The Bank was really being as helpful as it could, and the Chinese really were adopting what we told them, which was the most satisfying thing. I was the interface with China on the

economic side, whereas Caio was the interface with China on the operations side. My activities in this regard became even more intensive when I went to live in China.

Q: In July 1985, you were appointed chief of the Bank's resident mission in Beijing. Please discuss the circumstances leading to this appointment?

A: That was, I guess, in terms of my personal career, a real decision point. I'd then, of course, worked on China for the Bank for five years already, and it was perfectly understandable at the time since the program had reached the size at which we had to have an office there. But on the other hand, conditions within China were very difficult; you couldn't find office space, you couldn't have residential accommodation, and so on. But the Bank decided that we should have an office, and I was asked to go. And, I must say, it may have seemed an obvious decision. Looking back, you would think that I would have agreed immediately, but, in fact, it took me a while, because I was wondering whether five years was maybe enough. I underestimated the response of China to the Bank. I thought maybe we had done as much as we could, and the main objective of having an office was really now to move to a different level of lending activities. But in the end, I decided to do it. It turned out to be a very good decision, because I think the late 1980s was the time when China really moved on reform. In the first half of the 1980s, they were still hesitating and they were trying different things. Only in the late 1980s did they really push. Some senior managers in the Bank in 1980 were very hesitant about our getting into China in a big way. I think Ernie Stern was one of them – he was the senior vice-president. It was McNamara who was pushing. Ernie always thought that we should be very cautious, and we should start with a very small program with only a few staff because you really didn't

know how the Chinese would respond. McNamara always had the vision that you would not get the response unless you moved in a big way. He felt that you were not going to be hugely successful unless you were hugely engaged. And he was right. I think, if we had responded very cautiously, the Chinese might have lost interest, would not have seen what we could do. But by the mid-1980s, all of these concerns were gone. China clearly was going to be a major client of the World Bank, and we were going to have a major program. So, I think setting up an office there was an obvious decision. And, I also took a personal decision to continue working on China, and so I went there in 1985 and set up the office.

Q: OK. At the time of this appointment, as we've been talking about, China had already embarked on an economic transformation in what was really an ambitious attempt to modernize and reform its economy. In your opinion – and you might have touched on this already – what was most instrumental to this process of economic transformation? Was it political – the political will of the leadership, was it a younger generation of leaders, or what was it? And, what do you think was China's ultimate economic goal?

A: I think probably, in my view – and of course this is only one view, there could be a different interpretation – China's commitment to reform came from the realization of how backward they were, particularly, compared to countries which they felt were traditionally far behind them – South-east Asian countries in particular. Taiwan – that poor province – was so far ahead of them. When Deng made a visit to New York, I think sometime in the 1980s, it was mind-boggling to him the modern city that New York was. So that's what drove them. Of course, their ultimate goals were poverty reduction and modernization, which they saw as synonymous, because China had a

system which was overly egalitarian, obviously, but there never was a concern that if you had growth you would not have poverty reduction. And it proved to be right. Obviously, there was growing inequality with growth, but the bulk of the Chinese population has benefited enormously from the reform of the last twenty-odd years.

Q: Now, you said that the Bank's major contribution to this process initially was the advice that the Bank gave, and then later on came the loans and other assistance. How did your role as chief of mission contribute to this process?

A: Well, I should point out that the advice came in different forms. I was focusing more on the economic policy advice, where I was the key channel. But we advised them in all kinds of areas in different forms. On project work, let me just use two examples. You know, we take International Competitive Bidding (ICB) for granted now. ICB was a major development for China. In fact, it was a very difficult issue at the beginning. They would not accept ICB, and we had to tell them that unless you use competitive bidding, you don't get any money. It is an area where they've learned from us. Even up to today, many Chinese officials, particularly those not so committed to reforms, believe that ICB was probably the most important contribution of the World Bank to China. They even made a movie out of it, actually; I should tell you. They made a movie about an old father with a young daughter and a young engineer, and the issues of the World Bank coming to finance a hydro project. The World Bank insisted on ICB, and the father was out mobilizing efforts against it and so on, but his daughter was in love with the young engineer who was for it, and this created the tension. And of course, the story at the end was that the ICB took place because the World Bank insisted. The old engineer discovered that the Japanese engineer who won

the contract –the Japanese company – showed him how to build the dam much better, how to build it in four years rather than six, and so on. He learned – their economy learned -- so much from the ICB process. But ICB remains one of the most important contributions. We take for granted a lot of things, but it's a wonderful vehicle. You want to do a project, you bid internationally, and you learn, and the Chinese learned so much from those international bids. In fact, they told me that they found even the bidding process extremely useful, because in order to bid, you have first to decide how you're going to build the dam and in the process you find, "Look at this, oh, this is how the Italians would build it, and this is how the Japanese would build it." There are these enormous...

Q: Comparative analysis.

A: That's right, and knowledge transfer. I mean, they had their own way of building a dam or a railroad track or a highway, but here was the Italian, the French, the Japanese, showing how they would build it.

Q: They also probably paid a lot of attention to costs...

A: Costs, and time, this was always the problem in the old system, delays in completion. For a big infrastructural project to finish two years ahead of time is an enormous saving; to get that dam or get that highway up two years earlier. The other thing, of course, is the expressway. Today you read about all the Chinese expressways. In the 1980s we had a lot of problems convincing them to create a toll expressway. The contribution of the World Bank to China is something that needs documenting beyond this interview. The Chinese will be the first to be able to document it, because they very much appreciate the contribution of the World Bank. Turning back to the

expressway, we proposed to help them build the first expressway from Beijing to Tanjin. We had a discussion with the Tanjin mayor, who felt that he could build it by mobilizing all the schoolteachers, as he always did in the summer months to build a road, and why do you need all these Japanese contractors and machinery, and why in the world do you want to charge tolls – you know, the highway belongs to the people. How can you charge? All of that has changed, partly through our efforts. China today probably has the best networks of super-highways among the developing countries, and it has transformed the Chinese economy, and we have financed a lot of it. So I think you need to look at the project work, the sector work, to see all the contributions the Bank made to China. EDI had a big program in China. There was actually a dedicated China program in the EDI with funding from the United Nations Development Program (UNDP). We could never satisfy the Chinese. They always wanted more and more.

Q: Could you tell us very specifically about what the Bank did differently in China compared to its approach to other countries?

A: I think, first of all, because of the demands of the client, we were very much a full-service Bank. Everything the Chinese wanted help on we tried to provide. Every appraisal, every procurement was a form of advice to the Chinese. Now, even the treasury, our finance complex was involved. The Chinese began to borrow internationally at that time. I pointed out to the Chinese, “We have the biggest borrowing program in the Bank, and our finance people are the best in the world in managing a borrowing program from the capital markets. You should seek advice from them.” So Gene Rotberg, the then Treasurer, led the team to advise the Chinese

on how to borrow, how to raise money in the capital markets, how to match assets and liabilities, and how to manage exchange-rate risks, interest-rate risks, etc. The Chinese wanted to use every single part of the Bank, so the Bank was very much a full-service Bank. But the other thing is, particularly in the context of talking about today's knowledge Bank, and I'll say, I remain very skeptical about all this hype about our being a knowledge Bank. If you look in the 1980s, we truly were a knowledge Bank. That's what we were contributing to China. Given the size of China, the amount of money we were providing was minuscule. We had about a billion dollars from the IDA, and maybe one billion from the IBRD a year. I mean, that's about the highest level of lending we reached in China, two billion or so a year. It was minuscule, so it was really the knowledge transfer that had the biggest impact. We'll come to that later, but I think the Bank is much less of a knowledge Bank today. The Chinese are now complaining to the Bank that they're no longer getting the kind of advice and the knowledge that they were getting in the 1980s, and we are not flexible any more. I had enormous flexibility. Nobody worried about budgets in those days. Maybe that was not a good thing, but I could always line up an expert on any subject to work on the China program. Whenever necessary, we would put some experts together and have a little conference and directly interact with the Chinese policy-makers. We were very flexible, and we didn't produce a lot of reports. We produced these two major reports and some sector reports in between, but we weren't hung up on a lot of reporting. It was not like today when the economists in the Bank are so concerned about leading a mission and having their own reports. In the 1980s, for instance, Adrian Wood was

responsible for a big chunk of the China economic work, but I don't think he ever led a mission

Q: Is it possible that the Chinese have reached the point where they've moved along so far that what the Bank has to offer now is just going to be less than their current need requirements?

A: The Chinese are telling the Bank that they still need a lot of advice but they are not getting it from the Bank any more. They have said this explicitly to all the chief economists who have visited China – Joe Stiglitz and more recently Nick Stern.

Q: Well, why do you think that is? I mean, what's the problem in the Bank that...

A: It's hard to say, but despite the rhetoric, the Bank is no longer the knowledge bank we were in the 1980s as far as China is concerned. I believe it is probably the internal management and budgetary process which now does not give those who are managing the program the flexibility they need to be responsive to the clients. The internal management of the Bank needs a lot of investigation and more discussion than we have time for.

Q: Too large to manage.

A: Yes, there are a lot of things, but if we want to find an answer you could start with that. What I want to come back to is an interesting side story about the first economic mission in 1980. Obviously, the Chinese were very nervous about the first mission, and there were all kinds of rumors about me. First, I was a CIA agent then they said I was a Taiwan agent since I was Chinese. We have to remember the context of the time. It was only a few years after Mao and they'd never had any kind of foreign missions of this sort. We did the preparation mission in July 1980; I had a lot of

meetings with them to plan for the October to December main economic mission. What I told them was that if you're concerned about what the mission will be doing in China, why don't you appoint a counterpart team? Then you would have a Chinese economist sitting in on every single meeting of the mission so you can hear and understand what's going on and what kinds of questions we're asking. This will give you a degree of comfort and you will understand better what we are doing. So that was agreed. I want to mention that the Chinese economist whom they appointed to work with the industry team was Zhu Rongqi, who is today China's Premier. He still, from time to time, mentions that he worked as a member of my mission and wrote a note on Chinese industry for our report. If you look at the 1981 China Economic Report, you will see Premier Zhu listed as a member of the counterpart team. Our experience with Premier Zhu, of course, is most unusual, but there is remarkable continuity among the economists in China. Many of the economists who worked with us in the 1980s are in senior positions today. And these are the people who are complaining that the Bank today is not providing the advice it used to in the 1980s. These are not new people who did not know what the Bank did before.

Q: During your tenure as chief of mission from 1985 to 1990, a significant number of world events were taking place, for instance, the end of communism in Eastern Europe, Tiananmen Square, and the beginning of the disintegration of the Soviet Union which led to the end of the Cold War. In your view, what impact, if any, did these events have on the role of the Bank in China?

A: These events obviously had a major impact on China and the rest of the world. I don't think I have much to add to the many volumes of literature that have already been

written on this. I will limit myself to two aspects of the impact of Tiananmen Square incident on the role of the Bank in China that may not be widely known. First, we were working very hard in the late 1980s to convince the Chinese that they should not focus so much on IDA, that the Bank Group could contribute to Chinese development regardless of the terms of financing, whether hard loan or soft loan. We were making good progress on this and China was becoming a hard blend country. After June 4, 1989, however, the Bank's major shareholders imposed a ban on bank lending to power, highways and all types of infrastructure, as well as industries. Ironically, therefore, China became an IDA-only country because we could only do 'basic human needs' projects in the country. Second, in the late 1980s, we had also started to work directly with some provinces; having a dialogue with them on their development priorities and needs and tailoring our assistance programs accordingly. Of course, we had always funded provincial projects, but the choice of projects was always decided by the State Planning Commission. Direct relationship with the provinces was, of course, resisted by the central agencies who did not want to give up their authorities to decide which provinces would get the Bank loans and what projects would be financed. In the late 1980s, we had a breakthrough and we were allowed to have direct relationships with one province and two municipalities, on condition that we could only discuss IBRD loans with them, which was fine since these were relatively richer regions and could service IBRD loans. Of course, this initiative also stopped after June 4, 1989 since we were no longer able to make IBRD loans in China.

Overall, however, we continued to operate in China without interruption after June 4, albeit with the restrictions imposed by the major shareholders. Unlike many critics, we

in the Bank believed that China would continue with reforms and opening up after June 4. I would like to think that the fact that we continued working with them helped contribute also to the continuation of reforms and opening up in China. Certainly, the overall relationship between China and the World Bank has strengthened as we did not allow politics to dictate what we would do. We stayed, we continued as an objective organization, and you have to give a lot of credit to Javed Burki who was Country Director at headquarters at the time. I was in China and it was a lot easier out there, but at headquarters, it must have been really very tough to resist the political pressure. So, throughout the period after Tiananmen, when the rest of the world had given up on China, we stayed with them, worked with them, and did what we could. We could not lend for a while, and so on, but then we began to revive. I think China realized the kind of independence and objectivity of the World Bank during that period probably more than at any other time.

Q: A major and recurrent issue in the Bank's work in Asia is the issue of resettlement, which you just mentioned. Given the high population density of a number of Asian countries, and the need for infrastructure development, nowhere has this problem been and still is more acute than in China. Among the first projects in China were several big dams with important resettlement components (Yantan project, Shuikou dam project, and Ertan). These projects came on line a short time after the Bank adopted a strong social policy on involuntary resettlement, which some of our borrowers resisted, while China embraced it willingly. What, in your view, explained China's receptivity to the Bank's exacting resettlement guidelines?

A: First of all, I think the guidelines were consistent with Chinese objectives. Being a socialist country, China was always been very concerned and, in fact, successfully took care of the interests of the resettled people. And they also were very well organized, and they could mobilize very effectively. I think in most countries the government is not against most of these environmental and social objectives of the World Bank. Often the issue is about the costs of resettlement, particularly, in very poor countries. Now, China is able to do it because they can undertake resettlement at a very low cost. You know, they can move people, resettle them and so on, very efficiently, because it's a highly effective society capable of a high degree of mobilization. In a country like India, for example, it's much more difficult, and many of the difficulties are in compensation for the settlers, or people affected by the project. The problem is, if you pay one group of encroachers you have to pay all others. For example, in India, one issue was always whether a project should compensate encroachers who were living on the project land illegally. The Bank policy is that you have to give them full compensation, but the Indian authorities say that if you give encroachers compensation, you will find enclosure everywhere. If encroachment is being rewarded it will become an industry for the poor. It's not the few hundred thousand dollars for paying off the encroachers in a particular project, but, if you raise the standard to the point where it would be impossible to do any projects then that's the cost. I think China has been successful largely because I think it's within their objectives. The Chinese government has always been very concerned about the welfare of the poor, the displaced, and the underprivileged; it's part of the communist system – they are not very effective a lot of the time, but they are

concerned. And, of course, in China there is much less opportunity for dissent than, say, in India. In India, you try to move ten thousand families, there are going to be five hundred who will refuse to move. It would go on and on, and the project would not get done for a long time.

Q: The two successive Bank-financed projects to build the Shuikou Dam included a very difficult component, the displacement and resettlement of eighty thousand people, yet the project went on to become one of the Bank's most successful resettlements; restoring and improving people's incomes. In your view, what in the Bank's work accounted for this success? You spoke of the Chinese contribution, what was the Bank's contribution?

A: I think we worked with them. I think we recognized that they were committed. We weren't questioning their commitment, we were helping and we also basically not only allowed them to do what they'd been doing, but I think we gave them advice and suggestions and so on.

Q: Why did China ask the Bank, then, to appoint a blue-ribbon review panel in 1987 to oversee the work of the high-powered team offered free by Canada to prepare the Three Gorges project feasibility studies, and, how and what did the Bank panel contribute? And, why didn't China ask the Bank subsequently to co-finance the Three Gorges Dam and Resettlement Project?

A: I have to answer your question in reverse order. The Chinese did ask us informally to finance the Three Gorges Project. And we told them, "Don't ask." We advised them that the project was likely to be very political internationally and the World Bank did not have any comparative advantage in dealing with the controversy. We therefore

told them, "Please do not ask, because if you ask, we're going to say no, and it will be controversial, so don't ask." But, we thought we could help them deal with some of the technical and environmental issues. So, we established a panel of international experts to advise them on these issues. Let me just divert a bit on The Three Gorges. First of all, the project was to provide power, hydropower instead of thermal power. Now, China, as a fast-developing country and obviously needed a lot of power. First of all, on just the power side, you have to do a comparative analysis in order to generate that much power on what is the number of thermal power plants that you would have to build instead of this hydro project. And the environmental damage of those thermal power plants in China would be profited and would be enormously much more. But when you confront the environmental non-governmental organization (NGO) on this, their answer is, "China should not have so much power anyway," and here we would be sitting in a fully air-conditioned room and so on. But, if you simply make the assumption that China does need all that power, the choice between this hydro project and thermal projects, environmentally, would be to the advantage of the hydro project. But power wasn't the main benefit of the Three Gorges project, it was flood control. You read about how many thousands of people are killed every year by flooding, and that would be the main benefit. But nobody focuses on that.

Q: In July 1990, you returned to the Western Africa department, this time promoted to department director. What were the circumstances leading to this move, what were the challenges you faced upon assuming your new position, and how did your previous experience in China help in re-tackling issues in Western Africa in terms of lessons learned?

A: By 1990 I had worked on China for ten years and it seemed an opportune time to make a move. In addition, the Bank's program in China was very restricted after Tiananmen and it was clear that there was going to be a hiatus in both the Bank program as well as the reform process in China. On the personal side, becoming a department director was a major promotion. Unlike today, a director position in those days was a very senior position with considerable responsibilities. I had some choice as to which country department I would go to, but for myself, there was no question that I wanted to return to Western Africa, in particular, Nigeria. I am a big country chauvinist. I guess I always, rightly or wrongly, associate the importance of a work with the size of the population, because I feel that's how many people I would have an impact on. I have a special feeling about Nigeria, having lived there and worked there very closely with the authorities. So, I became director of the Western Africa department in 1990 after exactly a decade on China. Western Africa clearly had very different challenges than China. Returning to Nigeria, in fact, proved to be very sad. I went on a visit to Nigeria soon after I took over the department and I found that in the nearly 20 years since I left, the country had actually gone backward. Not only that, but, as I was saying earlier, we thought back in the mid-1970s that Nigeria's problem, at least its financial problem, would be solved if oil prices would reach two dollars a barrel, and of course oil prices exceeded 30 dollars a barrel, but they squandered all of that. In addition, they incurred an enormous amount of debt, so a lot of the work that I had in Nigeria was trying to resolve the debt problem, and we spent a lot of time with the official lenders in the Paris Club, and with the private lenders at the London Club. From the outset, debt restructuring was very much on top of our agenda. We did make

some progress. But it was very discouraging that often when we'd made progress on the technical side, then there would be some political event, and the whole thing had to be restarted again. We were able to make the French and British governments more sympathetic to debt restructuring for Nigeria, which was the only way out, but in the end it didn't work.

Q: Did that include managing oil revenues – teaching them how to manage oil revenues?

A: Yes, but I think it wasn't as much in terms of advising them on how to manage oil revenues, it was more trying to track them down, and there were obviously leakages, huge leakages. Nobody knew where the oil revenues were going, and we know now that a lot of it was just simply stolen. I remember working closely with the central Bank, but you could never track down where the oil revenue was. Also, before my time, the Bank was rather optimistic about Nigeria, so a big program in Nigeria was initiated with a very large lending program and consequently we inherited quite a large portfolio. I, therefore, had the unpleasant task of really cutting back on lending and then also cleaning out most of the portfolio. So, most of my time as director of the Western Africa department was devoted to canceling loans, restructuring projects, and stopping lending in Nigeria. We had even been making adjustment loans to Nigeria which really could not be justified, so we had to cancel a lot of loans, or stop the processing of adjustment loans that were under preparation. But soon we had to go further. Not only did we not lend, except for one or two very small projects a year, but we also started canceling outstanding loans to reduce our exposure. And I think in retrospect, it was certainly the right thing to do, but obviously, it's not what one wants to do in the Bank. I mean, one wants to help the countries rather than punish them, but

clearly, the government was not in any kind of a position to give priority to poverty reduction. They were just preoccupied with corruption and all of the malpractice that was going on in the country. So, in Nigeria it was really an unhappy time. We also had a number of other countries in the department, however. Ghana was the other major country. Ghana was a good performer, in fact, it was the star in Africa, and they were receiving enormous amount of IDA per capita from the Bank group and similar soft loans from other donors. But even so, I think one can see how fragile the situation was, particularly on governance, with the country being run by the military in coalition with an elitist group of civilians. Nonetheless, it was the star of Africa, it was the only place that we could do business well, and we did lend a lot. There were also some good bureaucrats, such as the minister of finance and so on. These were all technical people. So, at the sort of political level below the military, there were some good people. We also had Sierra Leone, and our main objective on Sierra Leone during my time was to bring it out of default. They were in default to the Bank and had to arrange a bridge loan from commercial banks to pay back the Bank in order to come out of default. Then we had two very small countries, Guinea-Bissau and Principe Sao Tome. The scale, of course, was very different compared to China, but so was the amount of resources we have for these countries on per capita terms. And that's always the nature of the Bank. The small countries really get a disproportionate allocation of resources, and the large countries are very severely penalized in this respect. I don't think there was a lot I could bring over from my China experience as conditions were very different. The dominant issue in Nigeria was, of course, corruption. There were some very, very difficult situations because some of the counterparts we were working with

we knew were absolutely corrupt. We often had extremely awkward situations, because it's just a farce when you're engaged in a discussion with someone you know is completely corrupt, and yet you have to engage in that discussion with him. The second feature of Western Africa, particularly compared to China, was the very poor human resource endowment and the general pessimism prevailing in the country. This pessimism in the 1990s was in great contrast to my experience when I lived in Nigeria in the mid-1970s. At that time, I think we certainly all had an enormous amount of optimism about Africa, especially with its resource endowment in oil, cocoa, peanuts, and so on. But after almost 20 years, you just look at what has happened, and cannot help but be very pessimistic. I guess a main lesson that I would draw from my China experience is a feeling of hopelessness about Africa, that they simply do not have the conditions which allowed China to shift gear and change and reform and grow so rapidly.

A: To transform itself?

Q: That's right. The human resources required were simply not available. The position of a country department director, which has a very broad and strategic responsibility, was, I found, interesting and challenging. At the end, however, job satisfaction has to come from results. If you don't see the result at the end of the day, nothing means very much. In Nigeria, for instance, we got very close to a debt-restructuring deal with the lenders several times, but at the end the government was not able to follow through. So if you don't see the result at the end, it is very discouraging. I enjoyed my job for the first couple of years, but I was questioning in my mind more and more whether I was doing any good, and, at some point, I decided that I wasn't really contributing a

lot to what I wanted to do. Many of us in the Bank who do believe in the markets and private initiatives are always wondering how we would do in the private sector. So, in 1994, I decided to leave the Bank and take a couple of years off to join probably the most extreme form of private sector, and that is investment banking.

Q: Although you were disappointed, was there anything that you felt the Bank could do more of, or differently, in Western Africa and wasn't doing?

A: No, because I think at this level, you can't pass the buck. As department director I had enough authority that if I thought the Bank should be doing more, or differently, I should have been able to do it. It was not for lack of trying, but we worked so hard and yet ended up often hitting our heads against the wall. It's very frustrating when the government of the country simply cannot perform. Ultimately it is the government's responsibility whether a country performs or not.

Q: There's no ownership.

A: That's right.

Q: So now that we know what prompted you in early 1994 to take two years external leave from the World Bank to set up China's first investment bank, as its first CEO, what role did you see for this new investment bank, The China International Capital Corporation? And, what role did this investment bank play in China's economic transformation?

A: Well, I think the idea of setting up China's first investment bank came from two sources. In 1993, Javed Burki, who continued to be the Country Director for China, convinced me to return to China and re-engage a bit on reforms in China. It was my discussion with the Chinese on financial sector reform, and particularly, a meeting

with Premier Zhu – actually he was the Deputy Premier then; you may remember that he was a counterpart member of my 1980 economic mission -- that led to this idea of forming an investment bank. Premier Zhu was always very concerned about Chinese industries and, at that time, he realized that there has a need for extensive enterprise reform and industrial restructuring. At our meeting he asked me, “How does one do it in a market economy? I mean, we’re trying to do it in a planned way, but obviously it’s not working.” And my response to him was that in a market economy, it is the investment banks that handle such activities – mergers and acquisitions and restructuring – and they do it through market solutions. And so I said, “What you might want to do is to introduce investment banking technology. And in the same way that China has done it in industries, such as automobiles, the import of investment banking technology might most effectively be done through a joint venture with one of the world’s top investment banks.” Project financing was another reason for setting up an investment bank. The Chinese leaders felt that they needed a lot of money for infrastructure investment beyond what the World Bank and other multilateral institutions could provide, and they wanted to see how they could raise that kind of money in the international capital market. And investment banking was one channel through which we thought China could raise capital for project financing.

The other source for the idea of establishing an investment bank in China was my personal motivation. By the early 1990s, I had decided that I couldn’t end a career and a working life without really trying my hand at private-sector activities. Before I joined the Bank, I was teaching at Hong Kong University and many of my students there have become very successful businessmen. Many of my friends in the

Philippines have also been very successful in business. I had therefore always wondered whether I might have been better off going back and working in the private sector. It is something that had been gnawing at me. So, I decided to take a break from the World Bank and have, I guess, what was a mini-sabbatical. But first, I had to go back to school to decide what I would do. I had been in the Bank more than twenty years by then and I had never attended any training program beyond the one- or two-day sessions, so I thought an extensive training outside the Bank might be very desirable for me after my long tenure in China and Western Africa. So I went to the Harvard Advanced Management Program (AMP). This was the three-month, full-time program independent of the World Bank. It was very intense training, and there was no one else from the Bank at the Program – they were all non-Bank participants. The three months I spent at the Harvard AMP further strengthened my desire to do something in the private sector. So, when Premier Zhu in our meeting encouraged me to try and organize a joint venture investment bank, it was obvious that this was what I should do. I began to talk to friends and acquaintances in investment banking. I formed the conclusion that it was probably a doable proposition. But I didn't want to leave the Bank, because I felt the Bank was still my line of work even though I thought I needed a break after ten years of China, and then the unhappy experience in Western Africa. Indeed, China after Tiananmen and the return to Nigeria to discover that the country had gone backward were emotionally difficult for me. Nigeria was particularly difficult. It's really emotionally draining to go back to a country after 20 years and see how everything has collapsed. I needed a break, and so that's what I did. I took a two-year leave of absence from the World Bank, from 1994 to 1996, to set up

a joint-venture investment bank in China which came to be known as China International Capital Corp. (CICC).

The initial establishment of CICC took a little over a year and required two parallel processes. The first was to meet the regulatory requirements of China, i.e. to obtain an investment banking license. The endorsement of then Vice-Premier Zhu was important in this process, of course. While Zhu had been instrumental in the establishment of joint ventures in the industrial areas, and largely also for technological transfer, he never thought of financial institutions in terms of joint ventures. It was necessary to convince him that the principle applies also for investment banking. After Zhu's endorsement, it was still necessary to convince all levels of the Chinese bureaucracy of the concept. Even when the concept was accepted, it was still necessary to go through all the bureaucratic process. It was particularly complicated because the concept of investment banking was not well understood in China. For instance, the central bank did not have any regulations for the establishment and supervision of investment banks. In fact, we had to help the central bank draw up such regulations which we did by asking for technical assistance from regulators in OECD countries. It was nonetheless awkward, to say the least, to help the regulators draft regulations to regulate us. At the same time, many other investment banks, commercial banks, fund management companies, asset managers, and venture capital firms were lobbying in China to set up either foreign or joint-venture institutions to perform these functions, most of which could also be part of investment banking. Some of the potential participants in these ventures, on both the foreign and Chinese sides, worked actively to sabotage our initiatives. It was quite an eye-opener for me to see the dirty side of

investment banking. It was, therefore, something of a miracle that we got our license in a little over a year, and a license which allowed a very wide range of functions which to this date is greatly to the advantage of CICC.

The parallel process was to complete the business deal, to identify the shareholders, and to form the joint venture through a shareholders' agreement. It was easy to agree on the shareholders on the Chinese side. We had expected project financing to be a major part of the business, and so, the China Construction Bank which was responsible for the bulk of project financing in China was the obvious choice. In October 1992, President Zhou of the Construction Bank came to Washington for the World Bank Annual Meetings. We met to discuss the initiative and he readily agreed that the Construction Bank would be the lead shareholder on the Chinese side. Subsequent discussions with the Ministry of Finance led to the agreement that the Investment Guarantee Company under the Ministry would be the second Chinese shareholder. On the international side, I thought it would be helpful to have shareholders who knew China and had a close relationship with the leadership there. The Government of Singapore Investment Corporation (GIC), the investment arm of the Singapore government, was attractive because it was a leading player in the global financial markets and Singapore, of course, was very close to China. In fact, Lee Kuan Yew, the Senior Minister, was the Chairman of GIC and he personally interviewed me in Singapore about this initiative before he agreed to GIC's participation as a shareholder in CICC. Mingly, a HK company that has close ties to the Chinese leadership was the other shareholder. The CEO of Mingly was an old friend of mine, from the days when we were both in Nigeria, and he too had been exploring the idea

of forming a financial institution in China, so it was natural that we combined efforts. I had talked to a number of investment banks, including Goldman Sachs and Morgan Stanley, both of which expressed strong interest. Morgan Stanley was the most enthusiastic and, through the Chairman of Morgan Stanley Asia, acted very quickly. Both GIC and Mingly knew Morgan Stanley well, so we agreed that Morgan Stanley would be the strategic shareholder. We then agreed that it would be a 50/50 joint venture between the Chinese and the international shareholders with the Construction Bank as the largest and lead shareholder on the Chinese side, while Morgan Stanley would be the largest shareholder on the foreign side, and with GIC and Mingly as the smaller shareholders. The consensus was that I would be the first CEO once the joint venture was established. I was, of course, not an investment banker, so I spent quite a bit of time during the first year learning about the business. I spent much of the time in the Morgan Stanley offices in New York, London and Hong Kong. This part was easy and went smoothly and concluded quickly. The tough part was negotiating a Shareholders' Agreement. This was where the cultural differences between the Construction Bank and Morgan Stanley were sharpest and led to very tense and acrimonious negotiations, where I was caught in the middle. Compensation was one of the biggest issues. We wanted senior bankers from Morgan Stanley, including at least one at the Managing Director level, to be my deputy at CICC, for the purpose of building the institution and training the Chinese staff. The Construction Bank wanted to second someone to be another one of my deputies to represent the Chinese interest. The problem was that senior bankers at Morgan Stanley were being paid \$2–5 million a year, while the highest paid at Construction Bank was probably earning no more

than \$10,000 a year at that time. The Chinese partner would not agree to pay the Morgan Stanley bankers the enormous salaries they demanded. So, how were we to ask a banker from New York to move to Beijing to work in a completely new venture and then to take a 90% cut in his compensation? As is well known, joint ventures of financial institutions from different countries or cultures hardly ever work well because of cultural differences. In the case of CICC, we are talking about the extremes, from the extreme of capitalism in the form of Wall Street investment banks to the other extreme of Chinese financial institutions barely emerging from the Maoist-Marxist ideological system. To cut a long story short, we did complete a Shareholders' Agreement, as every one could see that this was an opportunity to participate in a historical venture, and possibly to make a lot of money. Most of the seemingly intractable management issues, such as compensation, were addressed at least temporarily by CICC agreeing to a management contract with Morgan Stanley, allowing Morgan Stanley to have complete management control over three years. In return, Morgan Stanley was to be responsible for the compensation for some of their senior staff. This was actually my final accomplishment, to convince the Chinese government to accept that Morgan Stanley could have complete management control. They did finally accept this, on the grounds that this was the only effective way to achieve technological transfer. In fact, if I recall correctly, the management contract was accompanied by a technological transfer agreement. In my first few months as CEO, we also set up the institutions and established all the different departments for its proper function: the HR department and HR rules, Legal, Compliance, Operations Support, Risk Management, Accounting, Treasury, etc. Once this was done, my role

was over as I had nothing more to contribute. I did not want to devote myself to lobbying for CICC's business with senior government officials, as Morgan Stanley would have wanted me to. Once CICC was established, there was therefore a consensus, including myself, that I was no longer needed. And, of course, my two-year Leave of Absence from the World Bank was just expiring. Everything worked out well and in early 1996 I returned to the World Bank exactly according to the terms of my Leave of Absence.

Q: So six years on, what has happened to CICC in the context of China's economic transformation?

A: Oh, it has become an enormously important institution not only in China but also globally. In fact, one year they raised more capital than the total World Bank lending. If you do a search in the *Financial Times*, for instance, you'll see references to CICC almost every week. It's involved in all the major initial public offerings (IPOs) of Chinese enterprises, in virtually every one that takes place in the global markets. In fact, this has become its main business. The project financing business which we had thought would be the main business died out globally after the mid-1990s. But CICC is now the leading player in China in merger and acquisition, and in the partial privatization of major Chinese state-owned enterprises. In the international IPO business it is in all the major deals, and in partnership with one of the global players such as Goldman Sachs, Morgan Stanley, Merrill Lynch, Deutsche Bank, etc. In this business, it is CICC, not the global institutions that do the detailed restructuring work of the enterprises, preparing them for the IPO abroad. So, one can say objectively that CICC is playing a major role in China's industrial restructuring and capital market

developments. It has also been very successful in technological transfer. The management contract with Morgan Stanley was extended for another two years, but it expired and CICC is today entirely Chinese run; its staff today are 100% Chinese, and in fact its staff are now increasingly being poached by other institutions. In fact, I might mention that many of the most senior CICC staff are ex-World Bank and IMF officials, some of whom had joined CICC with me back in 1995. I think one can honestly say that CICC has successfully established investment banking in China today. If we look at countries such as Korea, Thailand, even Japan and the UK, few domestic investment banks have been able to compete successfully with the global, mostly US, institutions. In China today, there is no question in the international investment banking that CICC is the dominant institution even compared to these global banks.

Q: In early 1996 you returned to the Bank and joined the South Asia vice-presidency as senior adviser. By that time the Bank had a new president, Jim Wolfensohn, who joined in June 1995. Soon thereafter, in July 1996, you became director of the India country department. By that time India had already embarked on major reforms after its 1991 balance-of-payments crisis, focusing mostly on increasing the role of the private sector with little progress made in addressing rural poverty. Please discuss the major challenges and issues you faced in your new role and what lessons, if any, did you draw upon from the China experience model in terms of applicability to India?

A: Yes, I was appointed Country Director for India in 1996, the first one to be located in the field. I feel very fortunate to have had this opportunity, and China and India were clearly the highlights of my career in the World Bank. India was really the only option

after having worked on China, and I certainly did not want to go back to China after I left CICC. India was an obvious choice after I returned to the Bank, but actually I was somewhat reluctant because I felt, like a lot of people, that it was too late in a career to take on a major country like India. I know when I've tried to get some people interested in working on China, some of the more senior people would always say, "You know, China is something that you do when you are in your 20s and 30s. It is not a late career choice because it's such an enormous country and very difficult and very complex." This is, I think, also true for India and I was not sure I should take on India as what was likely to be my last assignment in the Bank. In reality, I found the concern probably less valid for India than for China, because India is a much more open society, and Indians are very open. They know the Bank very well, probably better than we do, and so it was a very easy and very fast learning process. And yes, I must say, it was also very interesting for me because clearly my China experience was extremely useful. The Indians have said it many times. In fact, at one point, I think Bank senior management were a bit concerned about appointing an overseas Chinese to head the India program and also somebody who was coming straight from China, but subsequently, I was told by many of my counterparts in India such as Montek Ahluwalia, that they in fact welcomed my China experience. I think China and India are clearly comparable, and I think my China experience was extremely useful. I could state several aspects. First, certainly the confidence that one can combine growth with poverty reduction as, I think, there's sometimes a feeling that it's either/or, but I think that you can certainly see from the China experience in the 1980s and 1990s that it is possible to combine rapid growth with very rapid poverty reduction, and, of course,

the key is to get your human resource investment right. The second aspect, which I think was very much a key to our work in India, is you've got to deal with a lower level than a central government. These countries are too big and, if you continue to deal only on a central level, you deal superficially. You can really get to the substance only when you deal at the sub-national level. And finally, this belief that you have to allow some parts to do better as in competition, a demonstration effect, you can't expect to spread around, and that was very much the strategy of the previous India program, which was trying to do as much as possible and concentrated on some of the poorest areas. My China experience certainly caused me to decide, with my colleagues, to introduce a very fundamental change in the World Bank strategy on India. At the same time, I learned that there are some very major differences between India and China in their relationship with the World Bank. India, because of its long history and because of its involvement in the Bank virtually from the start, and the fact that IDA was really created for India, in that it was the conversion of the bilateral concessionary aid into a multilateral one. So, India always felt a degree of entitlement to the IDA resources, and unfortunately, because, perhaps, of the colonial legacy and so on, they're very sensitive about advice and so-called "interference" by the Bank. They simply did not have the pragmatism and the confidence of the Chinese in terms of getting advice. The history of the Bank and India is very complex. I think, Jochen Kraske, then the Bank's in-house historian, actually started to write the history of the Bank in India. I think he did only a very short piece. But certainly, if you look at the history of the Bank in India, we had a very minor role in terms of advice and knowledge transfer. Now, of course, you want to say also that India needed a lot less

than the Chinese did which is probably correct, but the relationship was quite different in that India's main objective was to get a concessionary fund, and they would accept advice only very reluctantly. Now, there were some very enlightened bureaucrats such as Manmohan Singh and Montek Ahluwalia, who really did see the value of the advice of the World Bank and other international agencies, but certainly not at the political level. On the contrast between how China and India see the Bank, I remember a conversation a few years ago when McNamara spent an evening with me in my house in Delhi. He was contrasting his dialogue with Indira Gandhi with one he had with Deng Xiao Ping. McNamara said that Indira Gandhi was simply emphasizing to him over and over again that India is independent, and it would not accept advice, "don't interfere, just give us the money," whereas Deng Xiao Ping clearly says that, "We want everything you can offer. We want your advice, we want your money, want your technical input, and so on." So, the contrast between China and India was also very important to my work on India. By far, the sharpest contrast was that at the Federal level, which was the level we were operating in India, we simply did not have a seat at the table.

Q: Given the Bank's historical relationship with India, how would you weigh India's influence on the Bank against the Bank's influence on India? Who, in your opinion, influenced whom the most?

A: OK, I'll come to that. I just want to explain the shift in the strategy that we made in terms of how we developed the country assistance strategy for India. This was an overriding consideration. I felt we had to get a seat at the table. Given the nature of the federal government and the political atmosphere, it was very clear to me we could not

get a seat in the federal government. There was enormous sensitivity about external influence in parliament, particularly during the coalition government. It was just political suicide to admit that India needed advice from the Bank, and even the money was received very reluctantly at the central level; the federal government. But I found it was not so at the provincial level. There were many provinces, states, virtually all the states were very financially strapped, so they needed resources. A lot of them were much more enlightened and some of the Chief Ministers were really groping for ideas to make their state develop like China. In Andhra Pradesh, for instance, the Chief Minister was always telling me he wanted to transform his state into an East Asian tiger, so we found that political leadership in some of the states was very committed and very interested in getting assistance from the Bank; assistance in more than financial ways, and were also willing to accept it. They didn't have any political problem with it. You didn't find that in the center. So, beginning in 1996, but particularly, by the time of the 1998 Country Assistance Strategy Paper, we made a very major change in the India country strategy. We shifted a lot of our work, the bulk of our work in fact, to the state level, but it wasn't just any state. We began to differentiate. We wanted to concentrate on a few states only, because we felt that India could be successful only if a few states were to break out of the pack and create a demonstration effect – what you can achieve with reform and with growth and so on – rather than being mired in this sort of Hindu rate of growth, this just rather stable little equilibrium situation. And we also felt that politically, it was possible to do that with the states, and that some states would really engage in a partnership with the Bank. And India is so big. Bank senior management was promoting the Comprehensive

Development Framework (CDF) approach at the time and we felt it was possible to take a CDF approach at the state level. You can truly be comprehensive. You can be involved in more sectors, and you can be a technical assistant, adviser, and so on, which we could not have done at the central level. I think India is simply too large and it would be ridiculous to try to use a CDF approach for India, but in a few states we were able to, and we all know the CDF approach requires constant and frequent dialogue, and that was possible. So we shifted the program very drastically in India. We shifted to the states; we concentrated lending on a few states which were very poor and undergoing reform, and we took a comprehensive approach in these states.

Q: Well, in your opinion, how has the Bank's renewed commitment to poverty reduction helped India's economic growth, particularly, in the context of the CDF principles and the Poverty Reduction Strategy Papers (PRSPs)?

A: I think it was very helpful, I think first of all because India has always been very committed to poverty reduction. There's never been any question. They just don't do it very well. And I think given the clear mandate of the Bank, it may reduce somewhat the political sensitivity about the role of the Bank. I mean, certainly in many of the states they see the Bank as really truly trying to help them reduce poverty. I think at the national level you ended up being involved in one area in one state and in another area in another state. If you concentrate on two or three states you can really take a comprehensive approach. The PRSP has never been an issue, although there were initially some bureaucratic issues because the fact is that the Indians have been producing poverty reduction strategy papers for years, I mean, in their development plan. If you go back to the history of their development plans it is always committed to

poverty reduction. That was always the overriding objective of the development plan. So we looked at their last development plan. We felt its nature was certainly such that we could consider it a PRSP, and in fact, it's ideal because the idea of PRSP is that it is completely done and owned by the country. And, of course, the Indian problem is that they don't implement their development plans well so we saw that there was no need for us to develop or to help them develop a PRSP, we took their development plan as the PRSP and our role was to try to help them implement it, and particularly, to choose areas and regions where we could help them. So, I think that the PRSP works out well. I think this whole refocus on poverty and so on was helpful, and I don't think we were ever out of that focus anyway.

Q: The outgoing executive director for South Asia, in his farewell speech, recently stated that the region has the lowest gross national income per capita of all developing regions, even lower than Sub-Saharan Africa, and achieving the 2015 Millennium Development Goals (MDGs) will depend critically on the performance of South Asia. What is your view on this?

A: Oh, I agree very much with that. I think that, rather than South Asia I would talk only about India which I know best, I don't know very much about the other countries. In the development community, India has really not received the kind of attention it deserves in terms of the extent of its poverty partly because, I think, there are some very rich Indians and they are very articulate and so on, but it's mind-boggling to compare the extent of poverty in India with that of Sub-Saharan Africa. India has one-third of the world's poor. The absolute poverty in many parts of India is way below Sub-Saharan Africa's standards. In some areas, and when we talk about areas we're

not talking about a tiny little area. Let's take Uttar Pradesh, the biggest state in India with 160 million people. Uttar Pradesh has about one-quarter of the world's poor; an enormously large poor population, and a social economic indicator in Uttar Pradesh would be below many parts of Sub-Sahara Africa. So, certainly I agree that the poverty situation in South Asia, in particular India, has not received the kind of attention that Africa has. And certainly it's correct about any indicator, and we made this a point in the last two country assistance strategies, that there's no way the MDGs can be achieved without significant progress in India, because India is such a large weight in the total, and I think that is now being recognized both by the Indians and by the international development community. We have managed to get the Indians more interested in the MDGs specifically, because in different forms they have always had their MDGs. So, I think using the MDGs as a measurement of India's total poverty reduction is appropriate, and clearly, as I say, I certainly agree with the Indian ED's statement that these goals are not going to be achieved without significant progress by India.

Q: In terms of country ownership and commitment to poverty reduction, how do you view India?

A: I must say, I don't find a lot of distinction between India and China in terms of the commitment to poverty reduction. I think that the international community probably does not give either country enough credit for that. I think both countries are very committed to it. I think in India it's just that the political system, the social system, is not amenable to addressing poverty issues. What has continued to puzzle me very much was the lack of attention by India's political leadership, since independence, to

the health and education of the poorest. This is a contradiction, in that here is the world's largest democracy, here is a country where the leadership is supposed to be elected by the people, yet they've neglected, certainly in terms of human resource development, health and education, the poorest segment of the people for the last 50 years. In China, on the other hand, the leadership is not elected, allegedly not therefore accountable to its people, but the degree of commitment to improving the human resource investment of the poorest people is unquestionable, and they've achieved an enormous amount. Why did the democratic process in India not lead to a strong commitment to educate the people and to improved health? It seems to me therefore very important that a democratic country like India absorbs the MDGs into its political process. There is a real risk that the MDGs become mainly the donors' political agenda, and part of the political dialogue among donors, between the UK and the Dutch. MDGs are an odd mixture. We have very broad indicators such as incidence of poverty, and then we also have some very specific things such as access to drinking water and so on. So, obviously, you see it's a kind of political compromise because all the donors have their own priorities and agenda. I think, gradually, India has accepted to a certain degree that this is the priority of the donors, whether you like it or not. So I would just simply say that I think that India is strongly committed to poverty reduction, but then less so to the MDGs as a set of specific goals.

Q: Over the past decade, as the Bank pursued efforts to convince the Indian government to adopt a national domestic policy on resettlement, three significant developments took place. One, the publication of the Morse report on Narmada in 1992 resulting in the creation of the Bank's inspection panel in 1993. Second, the Bank-wide review of

the resettlement portfolio covering 1993 and 1994. And, third, India's withdrawal from the remainder of the two Narmada project loans. In light of these developments, what, in your views, made resettlement such a contentious issue between India and the Bank, and why has the Bank's policy efforts on resettlement apparently not succeeded so far in India?

A: Yes, I think we touched upon this when we were discussing China, but this is, again, a very complex subject. India is a very diversified country and society. In every locality there are different castes, different people with different backgrounds, and so on, and it is also a very open society where people are free to express their views and act accordingly. So it is extremely difficult -- I am stepping away from the Bank for the moment -- in the Indian context, to pursue resettlement or any kind of social movement imposed from the top to mobilize them simply because, as I was saying earlier, if 10,000 families have to be resettled, you're going to find 500 that refuse to go and want to hold out for higher-level compensation, and you'll find some activists and so on. So, it is a system that allows dissent a lot more than almost any society that I know of. I mean, it is amazing for a poor society the amount of dissent that it will tolerate. So, resettlement is very difficult to manage, and again, as I was saying, sometimes the people who write some of our policies are not really sufficiently rooted in reality. For example, maybe sitting in Washington at 1818 H Street it seems only appropriate that if you compensate resettled populations, i.e. what we term project-affected people (PAP), you should not distinguish between the legal settlers and the encroachers because some of the encroachers may have been there 10 or 15 years. But the reality in India is that if you start compensating illegal settlers -- people who have

illegally settled in the land -- we would simply encourage encroachment, and there will be no end to it. Among the very poor, encroaching on public land would simply become a source of livelihood, I am sorry to say. And also, if you do that for a World Bank financed project, what do you do for all the other projects? I think it's been a much more difficult process for the Bank as well for two reasons. One, because India is a much more open society where information travels and people can do what they want more. If you introduce a practice in a Bank-financed project, almost inevitably it will be picked up and learned by other projects and you then have to apply it to the same standard. And I think even people in the Bank accept that. In many cases, the standards we impose are not affordable by our borrowing country, by our clients. And the second aspect is that I find our jobs in these areas have become much more difficult because of the international NGOs and the activists. Some of them have been very helpful and worked with us and pointed out areas where we have been deficient, but many of them simply have some axe to grind and they make everything so political. At some point, as part of our strategy, we would just have to decide that the Bank shouldn't get involved in certain projects because we can do more harm than good. Also, the conditions in India are very difficult, it's very densely populated, and resettlements are always very complex and difficult. Development involves some very tough issues, and the issue has to be addressed objectively. But when you have some activist, some NGO sitting in Switzerland or in Holland, without much knowledge of local conditions, trying to impose their standards on the Indian population, it becomes even more difficult. But given all of that, I think that we have struggled and we have done fine. India is a situation where you are going to get more and more cases going to

the Inspection Panel, but that is the nature of India because you have a lot of NGOs and a lot of activists. Activists can become famous – and I am sorry to say, financially better off through contributions from international NGOs -- by having a case picked up by the Inspection Panel. I mean, that's a way to become famous in India – that you've got the Bank; you brought the Bank to the dock. To many activists, having the Inspection Panel of the World Bank accept a petition is like hitting the jackpot. Thus, many activists are going to try very hard to hit the jackpot. Thus, during my time, those of us working on India came to live with the reality that in all projects involving any forms of resettlement or environmental issues, we were going to have to defend what we were doing to the Inspection Panel. I don't really mind this, but it does divert resources and attention from other priorities. We had, in fact, a fairly good relationship with the Inspection Panel during its earlier days. And we received the Panel's commendation for the way we dealt with them. For example, the first case I had to deal with, virtually one of my first responsibilities on becoming the Country Director was the case of the National Thermal Power Corporation (NTPC.) The government was very supportive of us in working with the management of the NTPC. But I can understand the NTPC view also, because we wanted them to function like a private-sector company, profit-oriented and so on, and they wanted to minimize the cost of some of these activities. The government has always been very supportive, but it is difficult, again, because of the nature of Indian society and also the role of some of the international NGOs which I found unhelpful, whereas others were very helpful.

Q: Moving on to the Bank's role in tackling AIDS. In many countries, AIDS is rapidly reversing the hard-won development achievements of the past 50 years as it threatens

economic and social growth and could undermine political stability in some nations. In light of the prevalence of AIDS in five of the world's most populous nations (Russia, India, China, Nigeria, Ethiopia), India seems to stand out as having the most proactive policy in place to deal with this epidemic. What is your view as to why that is, since your country experience extended to Nigeria, China, and of late, India?

A: I'm not so sure, because I don't know much about AIDS in Nigeria now, but I think it is certainly the most serious. India is probably one of the most serious situations outside of Africa, with HIV/AIDS, and I think we have worked a lot on it. I think probably the Bank should take credit for raising consciousness on HIV/AIDS in India. Jim Wolfensohn himself every time he comes to India has this at the top of his agenda, and it was, for instance, the key subject during his discussion with the Prime Minister.

Q: Well, the Bank is an active partner in the establishment of the Global Fund to fight AIDS, among other things.

A: That's right, but in India, we actually are financing two operations to address the AIDS problem now, and I think Jim has always made it a top issue for discussion. I remember his discussion with the Prime Minister and so on. I think probably it's not correct to say India is the most proactive – India has a more serious situation, and I think now, they're beginning to...

Q: Perhaps they're not so much in denial, as opposed to what was recently reported about China having a delayed recognition of the seriousness of the issue.

A: Yes, India was in denial for quite a long time, but I think there is widespread acknowledgement of the problem. From the Prime Minister downward, there is now

much greater recognition of how serious the problem is, and willingness and commitment to do something about it.

Q: What, in your opinion, is the impact, including long-term prospects, of the technology revolution on India's economy, and how would you assess India's engagement in the globalization process?

A: For that, I think, you have to look at the structure or the nature of human resource endowment in India, let's say, just specifically, not only as compared with China, but with most developing countries. As we were saying earlier, India has not made sufficient progress in terms of educating and improving the health of the lower segment of the population. It has a very effective higher education system, but it is rather elitist. If you look at managers in some of the big multinational corporations, many of the top managers are Indian, and train in the Indian Institute of Management. So India has produced some of the most qualified manpower in the world, and the same for electronic engineering and so on. India has this veneer of top-level technological manpower either in management, finance, or technology. India is certainly benefiting from that, so in terms of the globalization, what we are finding now is that the growth in India is in areas such as information technology, back office services, and pharmaceuticals; areas which do not require bulk manpower, but require a few but very highly-trained, highly-talented individuals, preferably English speaking which India has in relative abundance. It's also interesting that these are industries that do not require much physical infrastructure in that you don't need good highways, you don't even need a good power supply, to some extent, to be able to operate and export, whereas in manufacturing you need a good transport system for the port, and you need

a good reliable power supply, and so on. So industry generally in India is heavily penalized because of the poor quality of infrastructure, but the IT industry is not. And the IT industry, because it's done through phone lines and satellite and so on, is also not amenable to government interference. So, what we are finding now is that the technological revolution globally is benefiting certain segments of the Indian economy –certainly IT, but also pharmaceuticals and similar industries. Apart from export earnings, however, it is not clear how much the India economy is benefiting from the growth of these industries. These industries do not provide much employment but, in fact, are leading to the export of high-skilled manpower. A lot of Indians are coming to Silicon Valley at that top management level. You look at some of the big multinational corporations, like McKinsey, many are headed by Indians. And so these have been the major, most important sources of growth in recent years – IT, pharmaceuticals, and so on. The problem with them is that, although they do contribute to the balance of payments, they contribute very little in terms of employment. So it's a growth that's not at all spread out, and although there are some very rich people in India today, there is hardly any trickle-down effect, and certainly not a lot of jobs are being created.

Q: Is there, then, an IT revolution within India?

A: I don't see much, particularly compared to countries such as Japan and South Korea. The IT revolution among the general population in India is probably no greater than say in China. India, of course, has the advantage of the language. And that's how they are very successful in the software industry, because they can write English. If you have ever tried to assemble Japanese toys using the instructions, you will understand

why the software industry in Japan is going to have a hard time. The Japanese simply do not have sufficient command of English to be able to write software, but Indians are able to do that.

Q: Specifically, in the context of IT and the IT revolution, how is India benefiting from globalization?

A: It has created a very fast growth sector which is generating a lot of foreign exchange, but it has not affected the society in general because it's not creating employment. And I would not say that the Indian society is more IT or computer-literate than the Philippines, Thailand, China, and so on

Q: Since the Bank is India's largest source of external long-term capital, what is your overall assessment of the development effectiveness of Bank assistance there?

A: Well, you know, it's hard to create, to set an objective standard, but I would certainly say much less than in China, because obviously there's also a difference in conditions and size of the country and so on. The development effectiveness of the Bank in India in the 1990s is, I believe, much less than in China in the 1980s which is the period I know best. Again, it goes back to my point earlier that China has always looked to the Bank as a comprehensive source of multiple assistance in all aspects: advice, technical assistance, and training. India, unfortunately, has looked at it mainly as a source of concessionary capital, and there are a lot of political sensitivities, certainly at the federal government level, about the Bank's so-called "interference," and that has limited the development effectiveness of the Bank in India, it always has. As I said, this is well known by Bank staff working on India. For this reason, we have since 1997 embarked on a new strategy in India known as the focused state strategy, that is

we concentrate our assistance on a few reforming poor states. This has enabled us to work directly with a few states whose leaders are committed to work and working with the Bank. And we have been relatively successful in a few states, but it is still too early to tell whether the strategy will be effective or not. This is also not a popular strategy with officials at the central government because they have lost a lot of their power in allocating Bank assistance and money to the states from which they enjoyed a lot of benefit.

Q: So development effectiveness is not necessarily due to any shortcomings from the Bank?

A: I would say development effectiveness depends to a large extent on the countries themselves. China wanted and did make much fuller use of the Bank than India did. And of course within the Bank, there is a self-selection process. Staff are obviously attracted to countries that wish to make greater use of the Bank, so the countries who welcome the Bank most inevitably get some of the better staff. I was quite fortunate in the first few years of my assignment in India as our counterparts in the government from the Minister of Finance downward were some of the best I have ever met in any of the countries, best in terms of their professional competence as well as in their willingness and ability to use the Bank for their development purposes. They have moved on and the new group of counterparts is not as impressive as the first group.

Q: What has the Bank learned from its experience in India, would you say, over the years?

A: Well, I think maybe one of the first points you were making earlier, and this is a point that invariably is always asked, yes, India has a lot of impact on the Bank. I mean, the

Bank today is probably formed to some significant extent by India and the Indian experience. And of course, many of the top managers in the Bank have been Indian, and so in that sense, it's much more of a two-way relationship. But certainly, looking at it one way, in one direction, on the development assistance to India, I don't think it has been as effective, but I think India has influenced the Bank a lot. But I must say I still feel unhappy that we couldn't do more in India, particularly now, and I also feel that India is still not getting sufficient attention from the Bank senior management or from the international community because when you lay out the statistics, the case is so strong for a really major effort on India. I mean, first of all, our overriding mandate is poverty reduction. Now, here is by far the largest concentration of the poor in the world, ever, not excluding Sub-Saharan Africa. But on top of that, again now going back to my Nigeria experience, I think there is a much greater opportunity of doing something here because you do have a very strong endowment of human resources, you do have quite effective bureaucrats, and there is a governance system that is working fairly well. I think it is also a unique opportunity that we have a borrower that can still get a significant amount of IDA so that you can work on a lot of things such as HIV/AIDS, primary education, and so on. India still gets nearly a billion dollars of IDA every year. On top of that, it is creditworthy for another two or three billion of IBRD. So certainly, financing possibilities, opportunities are there. We do not now have many countries that are eligible for such an amount of IDA, and, at the same time, creditworthy for large amounts of IBRD. The volume of money isn't important by itself, but it gives us opportunities to do so much if we have an appropriate strategy. So, as an institution – now that I am out of it I should be a bit more objective

now – I don't think we are responding as much to India as we should. And the other thing is, I must say, I find the Bank is not able to function as well as a knowledge bank now, despite the rhetoric. This is not my view only. We had a meeting of the Country Directors of large countries in Rio last March. Now, one of the conclusions we all came to was that the Bank is no longer a knowledge bank. It was now much harder than before for us, as Country Directors, to bring knowledge to the clients – knowledge transfer.

Q: Just to wrap up the India experience, what would you say were your main accomplishments in the South Asia region in terms of what you had initially set out to do?

A: Because I only worked on India I will talk about India alone. I guess I feel a degree of satisfaction that we were able to get a seat at the table, that in some of the states we were working on – Andhra Pradesh, Karnataka, Uttar Pradesh, – we really were able to have a dialogue with them on a wide range of economic policies. We had an influence on policy through dialogue and through the adjustment loans we were making. At the state level only, at least, I'm satisfied we were able to show that a different type of cooperation was possible in India. And I remember when I started, the old India head in the Bank, in response to my suggestion that we should have greater influence over policies in India, told me: "Oh, come on Ed, you only work on China. You don't know India. That's not possible in India." And we proved a lot of them wrong. I mean, some of the people did not believe we could ever do adjustment lending in India, and good adjustment lending. And a couple of our adjustment loans have been rated by the Bank as best practices, but when I started, a lot of people were

telling me India just would not accept adjustment because they didn't want our policy conditions. So that's on the positive side. On the negative side, I'm very pessimistic about sustainability. I don't know whether it would be kept up on both sides, both the Bank and also the Indian side, whether the Bank would continue to pursue a very aggressive strategy in India to truly make a difference in that country, I think Jim is, but that is not enough. You have to get much lower-level people to be motivated. And, on the Indian side, to really accept two things, obviously: One, is to allow us to deal with the state, and this is a big political issue, and second, for these states to continue to be committed to reform and development, and to continue working with the Bank in a comprehensive way. I felt we have made some achievement, but I'm not very confident about sustainability; it continues to be very fragile.

Q: Is there anything else that we didn't ask you about India that you want to talk about?

A: No. I'm sure some of the other issues we can get to later.

Q: Well, thank you very much for today's session and we look forward to another session tomorrow.

A: OK.

Lim Interview
Session #2

Q: Good morning. Today is Thursday October 31st, and we are continuing our interview with Mr. Edwin Lim. I'd like to begin this morning by talking a little bit about Country Directors Mr. Lim. The Bank's centralization was long viewed as somewhat of a handicap for its operations, however, since implementation of the Bank's decentralization policy under the Strategic Compact in 1997, the Bank has greatly decentralized with almost one-third of its total workforce, including two-thirds of its Country Directors, in field offices. In your opinion: a) how well has decentralization worked in bringing the Bank closer to its clients? b) how effective is it in promoting greater policy dialogue? And c) how has decentralization affected the shift in emphasis with regards to country ownership?

A: I'm a great believer in decentralization, and I certainly agree that the centralization of the Bank, until recently, has been a major handicap to our ability to respond to our clients. It presents a rather bad image of a bunch of people sitting in Washington coming out once or twice a year to tell the country what to do. As I mentioned yesterday, I was actually involved in one of the very early efforts at decentralization. Although that pilot failed, I should point out that some of the very successful experience of the Bank has been under a decentralized structure. In the early 1970s, when the Bank decentralized management to the Indonesia office, and the Jakarta office was headed by Bernie Bell who reported directly to the President, Mr McNamara, it was very effective in very quickly putting together a program of assistance to the Indonesian government which had just come out of the Sukarno era

and was involved in one period of reform development. Actually, in the period that I was in China, 1985 to 1990, although we were not formally decentralized and Javed Burki was the Country Director at headquarters, I think we were substantially decentralized in decision-making with a lot of decisions taken from the field. As I also mentioned earlier, the policy advice that we were providing the Chinese authority would have been very difficult to pursue if I was not in the field; I was able to be much more effective by being in Beijing. Certainly, my own experience now in India, with the decentralization of the Country Director to the field, ensures that we can be much closer to the client. I would point out though that there are two aspects of decentralization that were implemented as part of the strategic compact of 1997. One is the shift of the Country Manager – now called the Country Director – to the field, but the other is the greater reliance on national staff. In the India office, for example, we have a total staff of nearly 200 people, and two-thirds of the supervision work and about one-half of the new lending work is actually done by national staff. And I'm not even talking about headquarters staff stationed in the field, I'm talking about Indian staff. So the bulk of the operational work on India is now done by Indian staff, but we still have headquarters staff that bring in the international experience and set directions and manage the program in the field. So there are two aspects of this, and one is greater authority to the men in the field, having the Country Director there, but also greater reliance on national staff, which also means recruiting a higher level of national staff. We used to recruit national staff who essentially functioned as facilitators, but we are now recruiting very professional national staff and giving them responsibility for a lot of the work. Having someone in the field who can make

immediate decisions as well as having more national staff working on operations has created a much stronger sense of country ownership, and certainly policy dialogue is really quite different in that it can be pursued on a kind of day-to-day basis when the needs arise, rather than when the next mission comes from Washington. And I'm talking about policy dialogue, not just on general economic policy, but also on project policies. When a problem arises on the project, it can be dealt with immediately by either a visit or phone call, or just a meeting to resolve the problem. Now, in a big country like China and India, I would add particularly that the kind of work that we have been pursuing, for example, in India now with the provincial state government, is simply not possible if most of the senior staff, are based in headquarters, because you're then limited to a few visits a year, and then most of the time is spent in Delhi rather than in the states. But now we might go to the states just whenever the need arises, and transport is such that you could make a day trip down to one of the states, have a meeting with the Chief Minister or the Chief Secretary, meet with parliamentarians from the local assembly and come back to Delhi the same day. So, it becomes a much more fluid and continuous process of dialogue on both the general policy as well as on the project level.

Q: In terms of country assistance strategies, how effective, in your opinion, is the Bank in delivering to its clients, systematic cross-country knowledge based on its global knowledge and experience? And, how effective is the Bank in its analytical and advisory roles as evidenced from recipient countries and their policies? What is the perception on the ground?

A: Well, I think this is one of the key issues the Bank has to address now. Despite a great deal of effort, particularly from Mr. Wolfensohn, we seem to be losing our ability to deliver cross-country knowledge and our global knowledge to our clients. Certainly, if you took a look at the China report, for example, of 1984, you see it's almost entirely based on cross-country experiences. We were conveying to the Chinese lessons of experience from many countries in the world, developed and developing, in all the key issues that they had to face. And certainly during the 10 years that I worked on China, I felt that the role of the Bank primarily was to serve as a knowledge bank and to convey to the Chinese cross-country experience and lessons. For some reason, and I'm not entirely clear why, we seem to have lost that now, despite our rhetoric that we want to become more of a knowledge bank. And it's really very ironic, because we have created in the Bank the so-called Network whose objective is supposed to, in fact, bring cross-section and cross-country knowledge, and bring more of a sectoral policy orientation to operations. It's not working, and it's not only in South Asia or my perception alone. At the recent Rio meeting of a number of Country Directors of major countries – Russia, Indonesia, India, Brazil, etc. – we all expressed our concern about our inability to bring to our clients cross-country and global knowledge. And, as far as the recipient or the clients are concerned there is certainly this perception also. We hear this very clearly from China, both at the senior as well as the working level, telling the Bank, “You are simply unable to provide us the advice and the global knowledge that you did in the 1980s.” The Indians have also complained that our reports are full of prescription as to what they should do, and in most cases, they would really rather decide what to do. That we tell them this is how Russia, Chile,

and China are handling it, these are the options and issues, and let them decide in terms of their own priorities and in their context what they want to do. But we don't seem to be able to do that. We can only tell them, "This is what you should do." And we can't seem to share with them positive as well as negative lessons. One would have thought this was what the network was supposed to do, but most Country Directors I know are very frustrated at our inability to access the network, and to make the network work for the clients rather than work for internal priorities.

Q: So the rhetoric is not matching the reality?

A: Well, the direction is not being followed. I hope it's not just rhetoric. I think Jim is clearly one to see us as a knowledge bank, but somehow the mechanism, the structure, is not responding to that, and I must say that most of us Country Directors feel very much that most of the resources of the networks are being used to meet internal objectives; either those of senior management and other parts of the Bank or the Board's, but very little of it is really being made available to our clients. There have been cases where we've been asked by India, for example, on very specific issues, "Tell us how other countries have dealt with this problem." It takes a long, long time to get any kind of response, and in several cases, by the time we got the response from the network the issue was no longer relevant.

Q: Is it that what's on the network is too abstract?

A: Uh, no. I think one interpretation of the issue is, and this is always speculative because none of us has really done a study of this, is there's a new culture in the Bank. That staff are much more concerned about managing inward and upward. You hear that all the time, particularly from middle-level management, that managers are

managing inward and upward. You know, you try to please the person who is on top of you, or you try to serve some internal purpose, and we're not so concerned about serving the client. It's really unfortunate. For example, promotion of professional sector staff now has to be agreed by the network, but the network has very little knowledge of how the staff is serving the client. Right now, the Country Directors are not consulted on promotions of sectoral staff. If somebody working on India is being considered for promotion, the network would debate among itself, mostly people who don't know the staff at all except through some written outputs. None of them would have accurate knowledge of how the person is performing in the field. Now, the Country Director, the guy who sits in the country and who knows of the clients' response to the work of the staff is not even consulted. In fact, if a Country Director tried to intervene, it could be regarded by the network as inappropriate intervention. So, I think there is a culture now in the Bank that really considers working for the client as not important anymore.

Q: This managing inward and upward is nothing new. Isn't this the way the Bank has for the most part operated?

A: I don't think so. I don't have the impression this was the way it was before. Maybe this is a by-product of decentralization because there's this gap now between people...

Q: They haven't figured out yet how to deal with the people who are, in fact, decentralized.

A: That's right. Because a lot of the authority regarding the clients is now shifted to the field, headquarters people are inventing new types of authority which are career-related – promotions and so on – and they want to be seen as sort of independent of

the guy in the field. I don't think it was ever like this. Perhaps managing upward and inward exists in many bureaucratic organizations, but it seems very prevalent now in the Bank and most people seem to be aware of it and behave accordingly.

Q: OK. Having spent quite a number of years working in field assignments, how would you assess connectivity with headquarters and the corporate agenda, and what suggestions do you feel are warranted?

A: I think that in all of these areas, a lot needs to be done. I think one of the conclusions of the Country Directors retreats that we had earlier this year, was, in fact, on the very little influence that Country Directors have on Bank corporate policies, direction, and so on. I think there is an attempt to change that now. They have established an office headed by Basil Kavalsky, a one-man office. Basil recently came back as the Country Director for Poland, and he's now trying to organize the inputs of Country Directors in Bank-wide policy documents such as sector strategy papers. It is a good start but it's still quite limited. In our recent Rio meeting of Country Directors, the LAC vice-president made this point, that when you go to the corporate management, you realize that there are five or six regional vice-presidents, but there are some 20-odd other people. At this level, therefore, the voice of the clients is rather remote. It really is quite amazing in an institution such as the Bank whose function is to serve the clients, how little the front line is represented at the corporate management level. No wonder that we are now being told by many of our clients that the Bank is not really relevant anymore.

Q: In your opinion, how well have HR policies evolved in the Bank to meet the challenges of decentralization?

A: Well, I don't think HR policies have really evolved to meet the challenges of decentralization. The Bank does have a serious problem now in both, the career management of incumbent Country Directors as well as the training and development of future Country Directors. The former gets a lot more attention, as Country Directors out in the field are obviously concerned about where they will go from there. I think a large proportion of them probably expect to retire from the field, as I have done. In my view, however, the training and development of Country Directors is even more critical. With decentralization, the job of the Country Directors has become very important. Although so far the experience of decentralization of Country Directors to the field has been very successful and welcomed by both Bank management and client countries, we should also recognize that there is a high degree of risk involved. When you send a person out to the field to be the Country Director, you're relying a lot on this individual. If you send the wrong individual, it could be disastrous. Whereas, if the individual is working as a member of a management team at headquarters there's much less risk. And I already pointed out how disastrous our experience was in Nigeria when we tried to decentralize the program division, but I think it's much more so now because the Country Director does have a lot of authority and can really steer the program and the strategy. So it seems to me that the job has become extremely important, but what is worrisome is that there is no effort to enhance the skill of incumbent Country Directors or potential Country Directors to meet the new challenges and the increased challenge of the job. The sector, the network, and the sector unit, have all kinds of training programs, and there are a lot of efforts to upgrade the knowledge of the sector staff. There is absolutely nothing for Country

Directors. There's no Country Director network. Only in the last few months have there begun to be exchanges among Country Directors, as I mentioned. In fact, the large Country Director retreat in Rio was a first, but, there wasn't even a forum for Country Directors to meet and exchange experiences – zero.

Q: Well, that's what we were going to ask you: Since more than two-thirds of Country Directors are in the field, what emphasis is there on exchanging learning experiences from one another, as to what works and what doesn't on the ground?

A: Very, very little, and I think that's something that's a serious issue for the Bank, and it's not just the exchange and learning from each other among the Country Directors. It's also the need to have a strategy to develop our future Country Directors. These are our key people, out there interfacing with the clients. I think we would all agree that, to a large extent, the quality of the Country Director is going to determine the quality of the Bank program in the future. We have not thought through as to where the new Country Directors will come from. We need to have HR arrangement of which high-potential staff in any career stream could gain country management experience and prove their potential for Country Directorship. Right now, a lot of the Country Director appointments seem to be very much just a way of solving some personnel problems or to meet a particular personnel need – there's a lot of skill required in country management and there's a great learning process. The comparative advantage of the Bank is bringing cross-country experience, and so you cannot just work on the power sector and become the Country Director, particularly of a large country and a complex program. But we don't have any such plan in place, and so, I would say that's a key issue that HR will have to address urgently.

- Q: The problem of decentralization in large corporations has been one of the big issues in twentieth-century management. Companies who have been able to figure out how to manage decentralization usually do very well. Those who haven't have had real problems. It's a constant problem.
- A: It is a real problem when you have a big gulf between the decentralized decision-maker and corporate headquarters.
- Q: The difference in corporations is that it's easier to make judgments about how a decentralized division is doing because of what's the return on investment. If it's good, then we know there's at least a benchmark, whereas here, it's a lot more complicated. But what you're saying is that upper management hasn't paid enough attention to this whole question of either assessing or working with, or developing people who can handle this and do well in a decentralized environment.
- A: Yes, precisely. I think this is symptomatic of what's ailing the Bank today. Jim is a leader, and he has set the policy and the strategy of decentralization, but having done that, the management structure below Jim should work out the policies; how we're going to implement them, how we're going to ensure that a gap does not exist between the Country Director in the field and the network at headquarters, how we're going to have HR policies to ensure that we continue to develop and produce a core of Country Directors to do this greatly enhanced responsibility. That has not been done, and so what's happening now is that Jim would have envisioned an idea and he would implement it, but the follow-through is not being done, and so sometimes these become counterproductive. I think many of us are concerned that with decentralization, which clearly is very useful and very necessary for the Bank, we are

in a high-risk situation that you could be sending the wrong person out and it could be disastrous, perhaps not for the Bank, but certainly it could be disastrous for the country.

Q: Well, since Country Directors are at the front line of development, to what extent does their vantage point affect the measures of results and impact of Bank operations, and how engaged are field directors in the formulation of Bank strategies and policies?

A: Well, as I said, I think, we've found that most of the major Country Directors have felt that we have very little input to the formulation of Bank strategies and policies and, in fact, we are sometimes faced with strategies we know cannot work, and certainly cannot work in the country that we are responsible for. A challenge to the Bank is to be able to merge and integrate this corporate and global perspective with the field perspective, but I also feel that sometimes there is too much of an emphasis on global rather than field, because, after all, global is just a sum of the field. And, often people critical of decentralization say, "Well, your Country Director is in India so you have good country knowledge, but we need to bring global knowledge to India." Think how ridiculous this argument is, because, in fact, the country that I have the least experience on is India, and I bring to India an enormous amount of experience on China, Indonesia, Thailand, Vietnam, and Nigeria. So, I don't find that in moving to the field people necessarily lose their global perspective, and I think that very few people at headquarters would have the kind of diversified country experience that I have, so I don't think that we should assume that a field person doesn't have global knowledge. Now, obviously, when we recruit a national staff member who's never worked outside their country, that would be true, but then, I think it's a challenge to

blend in the country a mix of headquarter-based staff with global knowledge and national staff with much more intimate country knowledge.

Q: So, ultimately, what then is the effect of Country Directors' perspective on the formulation of Bank policies?

A: Well, at the moment now, very little, but as I say, I think Basil Kavalsky has been given the responsibility of trying to integrate that and input the Country Director perspective into the corporate and sectoral strategy. It's difficult. There are so many of us out there, and all he can do is send an e-mail to a couple of them. It's a very ad-hoc mechanism.

Q: Now, who asked Mr. Kavalsky to do this? I mean, was it the other Country Directors or...

A: It was very much in response to a demand by Country Directors, because we meet sometimes during the Annual Meetings and this is always coming up. Now, that's influenced the situation somewhat, but I think the problem is not yet solved.

Q: Well, in your opinion, should the emphasis on exchanging learning experiences amongst Country Directors come from the Country Directors themselves?

A: Yes, and I think that's what's happening now. For example, a few of us simply decided that the Country Directors for large countries have many common problems and we should meet, so we met in Rio. Recently, I think there was a similar meeting in Turkey to discuss the problems of managing more than one country. So now, it is beginning and I hope it will continue and will expand, but it is worrisome that this is only beginning five years after decentralization.

Q: Turning to some questions about the Bank's business, some have argued that the Bank should "get back to basics" of the sort envisioned by its founders. In your opinion, how should the Bank address the issue of selectivity in its crowded agenda in light of greater emphasis on partnerships with borrowers, development actors, and other agencies and organizations? For instance, should the Bank discontinue acting as executive agency for technical assistance? Should it divest itself from some of its operational and/or policy research? What do you think?

A: My feeling is that we need to have good country assistance strategy, and that should drive the agenda. I don't fully agree with this idea of getting back to basics, because basics have changed. I think the role of a multilateral institution in China today, for example, is certainly enormously different from what it was in 1980. In fact, my concern about the China program today, for example, is why are we still continuing to do the expressway and power projects that we did in the 1980s? It made a lot of sense then and, as I was saying yesterday, I think we made very important contributions in an area that you would not think of, like international competitive bidding, and building and charging a toll for highways. But it's way past that now. China can raise private money for power projects so easily now, so "basic" for China today is not what it was in 1980. My view is that we really need to be responsive to the clients. I would not agree that we shouldn't be involved in technical assistance, and we shouldn't be involved in this and other areas, but, what I would agree with is the need to have the country strategy drive the agenda of the Bank as a whole. There are many things now that are driving the country program which have nothing to do with country priorities. We are now being told that this is important, this is not important, and so on. I mean,

to be frank, let's take the Millennium Development Goals. Now, this was a political outcome of a process among donors, key donors. Now, the general objective of reducing poverty is fine, and it's our mandate, and we should be driving that. But should each of the 14 goals be adopted by our country? They may not be that important in a particular country, and maybe they have other problems, not necessarily the problem determined by the Dutch government and the Swedish government and so on. The problem we have now is not this idea about going back to basics, but that the work of the Bank is driven a lot by an agenda which is not related to country needs and priorities, and they're not part of the country assistance strategy, and very often, in fact, we have been told that, "How come your country assistance strategy does not include A, B, and C?" And, if you respond, it's not a country priority, it will never be acceptable. I certainly agree that any institution has to have a corporate strategy and priorities, but this is where selectivity has to come in at the corporate level; that we have to limit priorities to a handful, and then let the actual agenda be driven by country needs and priorities. But right now, it's the other way around. The list of corporate priorities is so long and you have to address all of them. When you draw up the country assistance strategy and when you're being reviewed internally at headquarters, most of the time it's just simply: you've got to mention this, you've got to address this, you've got to add this, etc. etc.

Q: It's been expressed recently that the role of the Bank should increasingly be that of facilitator and broker of development. What do you think?

A: I think if that's a role that is feasible in a particular country, it certainly is very important, this is where we have great leverage. But if I were to contrast my

experience in India and China, I would say in China, certainly, we played that role. In the 1980s the Bank was the key international agency, the IMF virtually had no role there, and certainly not the Asian Development Bank. Even the private sector in the 1980s was only learning about China, and so we were a chief broker of development. I think India would not want us to play that role. By contrast, India is a much more open society, it has very close contact with the private sector, the Asian Development Bank has a large program and India would prefer to have us as one of the major players that they can, in a sense, manage. They don't want us to be the dominant player, and we have to accept that.

Q: Turning now to aid coordination which has become an issue. President Wolfensohn has recently decried the terrible mismanagement and waste plaguing development aid, emphasizing that fragmentation of donors' efforts has long plagued its effectiveness. Does this mean that World Bank coordination efforts have so far failed, and how would you assess the Bank's various mechanisms in coordinating and mobilizing aid resources through, for instance, trust funds, consortia, and consultative and aid groups, especially in view of the overall decline in foreign aid?

A: I think Jim is right in that there has been a lot of waste, and that development aids are not well coordinated, and we could certainly help our clients a lot better if we, the donors, got our act together. But it's not easy, and I would certainly not have a sort of blanket assessment. There have been cases where we have been very effective, and mainly in small countries such as in Ghana, for example, I think the Bank has certainly had the predominant role because of the size of the country. But countries like India and China have never wanted us to take the lead. They want to take the lead in

coordination. Why should the World Bank coordinate? They feel perfectly capable of doing that. I think it varies from country to country, but also, you see, again, we shouldn't expect other donors to behave differently than we do. We have a long set of agendas, and so do the other donor agencies, and sometimes there are conflicts among the donors' agendas, or overlap – probably both. Everybody wants to get into HIV/AIDS because that's a high-profile issue, so it's not easy to coordinate because each donor has their own agenda, and no one is really willing to give up anything on their agenda. So it's not an easy task, but there have been successful cases, and...

Q: Is it incumbent on the Bank to take the lead?

A: No, that's the point. I think we are the dominant development agency in the world, so there's no question about that, but not always in a particular country. In many South Asian countries, the Asian Development Bank has a much larger program than we have. Sometimes we are arrogant enough to feel that they don't do quality work, whereas we do, but certainly the price of the program is larger. There are other countries where Japan is much more important than we are. I think the issue is really with the country. Why shouldn't the country coordinate aid? Why should the World Bank? I mean, Jim is right, hence, why should we feel it's our responsibility?

Q: Are we right in emphasizing partnerships then and, in the process, recognizing other people's expertise in areas where we don't necessarily have the expertise?

A: Yes. I think certainly that a stronger division of labor among donor agencies is very important, but I think that's an area where perhaps we should be re-examining our own work: should we get into a lot of areas where maybe the bilateral donors or the other donors may be better? But I don't think we should take responsibility or the

blame for the problem of inadequate aid coordination, because we shouldn't simply assume that it's our responsibility to coordinate aid. It's up to the country.

Q: How can the slow process of IDA replenishment, generally fraught with political hazard, be improved upon in light of overall decline in ODA? Also, the Bank has recently agreed to provide up to 22% in grants instead of the current 7%. What, in your opinion, might be the ramifications of that for the Bank?

A: Well, just responding to your last question first, I'm sure the IDA people have worked out in terms of the repayment stream and so on. As for its implications, I haven't looked closely at that. But obviously, the way IDA replenishment works has posed very severe constraints on the Bank in that it's not an automatic replenishment, that there have to be negotiations, and that has created an opportunity for the political agenda to enter the Bank's work. And, it's very clear that many of the donors use the IDA replenishment process as a means of getting their agenda into the Bank agenda. Now, in a sense, of course, that's appropriate. I mean, they are a shareholder, and they are a provider of grants, and they should. But it gets to a point where because you need a consensus, it gives enormous leverage to a very minor participant, and so it gives disproportionate roles to some of the shareholders, large or small, and one would think that some of these really should be done more at the Board. You see the problem with the discussion of the IDA replenishment, although there has been little change, until recently the clients and borrowers have not been involved in it, it's purely among the donors, and so there is no check and balance, and the result is that conditions and requirements are constantly being added. There's no one at the table to say, "Hey, this is not acceptable, and this is not good for development," whereas on the Board, of

course, you have a much better balance between lender and borrower, and between the donors and the client country, and I would have thought that many of the policies ought to be discussed and determined by the Board. But, because of the IDA replenishment process, you have IDA deputies representing only the donors meeting and determining essentially Bank policies. We have seen it, it's fraught with risks and problems, one would hope for a political process that makes replenishment more automatic, and I think this is where the issue of the client comes up, because I certainly think it was the hope of the Bank that, over time, the re-flow would be significant enough that we would rely much less on replenishment, and re-flow, of course, is not subject to these political pressures, and, of course, the client has a say. But now, if you increase the grant element, there will be much less re-flow, although I think the impact will be much delayed because replenishment of the new IDA credit will not start for some time.

Q: Skeptics argue that the multilateral development banks (MDBs) are no longer relevant for countries with access to private capital. In your opinion, should MDBs continue to lend to those countries in Latin America and East Asia, plus China, India, and Russia, or instead concentrate on poor countries with little access to foreign private capital?

A: I think this is a question that we don't have to worry about too much because I think those countries will let us know. I think countries, particularly the larger countries that you are talking about, are very sophisticated, increasingly sophisticated. They know what they can get from the private market and then what they can get from us, and they will tell us, as Russia has recently told us, that they really don't want to borrow from the Bank any more. On the other hand, I think countries like Brazil and Mexico

are telling us that despite their improving ability to raise capital in the private market, they do want to continue borrowing from the Bank. Mexico still wants a very large role from the Bank, although it is already rated as an investment grade country, it can get money probably pretty much as cheaply as it can get it from the World Bank. Nowadays, you can get long-term money too from the private market. So I would say that in those countries, let them decide, don't worry too much if they don't want to borrow. Of course we need to define carefully our strategy in those countries, but why get out of a major business when there is still strong demand for our services. It's clear, however, that in today's world, we need to focus much more on poorer countries with limited access to private capital markets. I would not include India, however, in the countries with good access to private capital. India is one of the world's poorest countries, with, about one-fourth of the world's poor; I think we need to be engaged in a country like that. Their access to private capital is quite limited. They're very cautious in borrowing. Of course they can borrow from the private markets more than they are actually doing but that's only because they are very cautious and they're relying a lot on the Bank. I would say that in a country like India, the presence of the Bank, in fact, is almost a precondition for access to private capital. I think the private market would be more comfortable if the Bank had a very large presence and was very actively engaged in policy dialogue, and monitoring economic situations closely.

Q: In terms of trade liberalization, aside from playing an advocacy role, what should be the role of the Bank in liberalizing trade in view of the reluctance of the Western Europeans and the US in reducing tariffs, subsidies, and other barriers that undermine developing countries' efforts to compete in global markets?

A: I think we can play a larger role on the trade issues at the country level. On global dialogue, there are many other agencies involved and except for being a kind of participant in these dialogues, I don't see why the Bank should take a lead role. An area that's emerging now is to advise our client countries as to the implication of the requirement of these trade liberalization measures for the internal economy. Some countries like China, I understand, have prepared well. They have really analyzed and are preparing themselves for conditions under WTO, for instance. But I found, and we've been saying this very much to them, that the Indians have done very little. They have agreed to a lot of changes under the WTO, but, they have not really followed through on matters such as deciding what the concomitant changes are in domestic policy that will be required to allow India to meet the challenge of liberalization.

Q: Turning now to compliance and the WB. What leverage does the Bank have in inducing compliance with clauses in its loan agreements, and how limiting are its internal policies? In turn, how compliant is the Bank with its own policies, and how has that affected its policy formulation and governance?

A: I think we are certainly very conscious of our internal policies, particularly more recently on environmental and social policies. In fact, the number of watchdog agencies within the Bank has multiplied, and there are so many people scrutinizing this aspect, and so I don't think that's a problem in terms of compliance. I mean, I think the problem is more about the relevance of these policies to particular country conditions, and the degree of flexibility that may be required that may not be there. The current culture of the Bank is that policies are being very rigidly applied and there's very strong risk aversion now within the Bank itself, and not much

consideration of how the implementation of our policies are affecting our client countries. Indeed, these people who are doing the clearances on safeguards and other aspects have little incentives to look after client interest. Their incentive is to protect themselves, and so the tendency is to be as tough as you can because they're not concerned if the project doesn't get through, if the project gets delayed a couple of years, if the villagers cannot be supplied with any water from the project for a few more years; but they are concerned that if they agreed to a flexible interpretation, five years down the line there could be an inspection panel case and they could be in trouble

Q: Following up a little, and you've touched on this with your comments on the environment, but what is your assessment of the Bank's current strategy on the environment, increasingly viewed as moving beyond safeguarding to improving the environment?

A: Oh, I think this is very good, and I think this is much needed, but I don't think we're making much progress because of the risk-averse environment. If you look at the actual decisions being taken, in fact, effort to improve the environment has been rejected, and the safeguard people are asking for very concrete measures at the project or micro level rather than improving the capacity of the borrowers to introduce their own safeguard measures. So there's a lot of rhetoric, but I think this is an area where I don't think that progress has matched the rhetoric.

Q: In your opinion, how adequate are the Bank's mechanisms for evaluating and measuring the results of its work e.g. the Inspection Panel, OED, the Quality Assurance Group (QAG)?

A: Very inadequate, but on the other hand, I don't know what the answer is. The problem is the nature of the Bank work. Yes, the Inspection Panel is sort of for exceptional cases, and only when there's a complaint and so on. It's difficult because it's not easy to evaluate and measure the Bank's work in the short term – and also in the field that we work in, it's very difficult to identify causality. I mean, if a certain program went wrong, is it because of the Bank programs or Bank involvement, or is it because of something else? And then, often it could be just natural catastrophe. But I must say, we could probably do better. I mean, certainly I think we all would agree it's highly inadequate. I'm very critical of OED's work. I mean, the problem with OED is that it seems to have decided to rely on current Bank staff, and unfortunately, because the OED work is not seen as priority work it doesn't attract the best staff. This has been true for as long as I have been in the Bank. OED used to be known as Siberia; poorly performing staff would be exiled to OED.

Q: But you don't think this has changed recently?

A: I think there has been an effort, I don't think it has changed, and I think you should contrast the approach of OED with QAG (Quality Assurance Group). QAG has decided to rely mostly on retired Bank senior people, and so, they are able to draw on people with a lot of experience, but there are pros and cons. The risk of having former managers come back to do evaluation is the tendency therefore to keep doing everything the old way and to under-value new ways of doing things. My experience with OED has not been good, however. Let me give you an example, OED has started, quite rightly, to evaluate country assistance, so rather than evaluating specific projects, evaluate the overall strategy and program which I think is very commendable. But the

actual experiences have been very bad. I had the experience of having a country assistance evaluation done for India, and I also know of the work done on Russia. An evaluation of the Bank strategy on India and on Russia is extremely challenging, and would be extremely important for this institution. Soon after I took over as Country Director for India, I understood that OED would do an evaluation of the country strategy for India over the past ten years. I had high expectation of this exercise which I thought would be very helpful for formulating a new strategy [REDACTED]

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[REDACTED] The evaluation in my view was a disaster in most areas. We ended up spending an enormous amount of effort on the India country assistance evaluation to make it, to be frank, an innocuous, however, still not very useful document. But, at least, it was better than a harmful document which would create an entirely wrong impression. OED management thought we were being defensive but as a new manager for India, I had no reason to be defensive, on the contrary...

Q: That would have been useful for you to have.

A: Absolutely. If the evaluation was very critical, it wasn't about what I had done. In fact, it was not useful at all because we found, particularly our sector people, that the evaluation team had very limited technical expertise or global knowledge, and no knowledge of India. [REDACTED]

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Q: Well, could it be that they picked these junior people relying more perhaps on getting an unbiased outcome from them, since they don't bring in any experience, as opposed to following your guidelines as part of the quality assurance group (QAG) that reports to management, where views may be biased, whereas OED is independent and reports to the share holders.

A: Maybe that's the motive behind it, [REDACTED]

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[REDACTED] You do want to have an objective view and maybe...

Q: Unbiased.

A: Unbiased, and maybe a younger person with a fresh view, but to evaluate something, you have to have some understanding of the process. This is required. But you're right, and a lot of people are unhappy with QAG because you are bringing these old-timers and they're regurgitating the old views and so on. If you are bringing directors who were running the Bank in the 1970s and 1980s, you are not going to get new ideas and perspectives. So it's tough, and we haven't sorted out what is the right approach. More generally, I think evaluation in the Bank is very difficult because the nature of our business is very difficult to evaluate and to measure. I really am very skeptical of all the attempts to measure. I think, ultimately, it has to be a qualitative, thoughtful evaluation. Largely based on judgment, and of course also based on the clients. You've got to talk to the clients.

Q: Following up a little bit on this, what do you think of the systematic learning of lessons in the Bank as an input in policy formulation?

A: Well, this is one thing where I think we have done very little, and we have missed an enormous opportunity. In the Bank we have such rich experiences. We really should have documented them better and developed them as case studies. I think there was a unique role for the Bank and we seem to have missed that, at least so far, and as I say, I would certainly think that an area of the Bank that is responsible for dissemination, for training, and for policies, learning, and so on, should give a greater effort to...

Q: Knowledge transfer.

A: That's right; not just through individuals but also through documentation.

Q: We're going to turn now to some questions about the Presidents of the Bank. How would you assess the various Presidents you've served under?

A: Well, I certainly feel that there's no one comparable to McNamara. Now, it's correct, of course, the Bank that McNamara created is no longer the Bank of today, and is probably not a Bank that is suitable for today's times. But nonetheless, I think McNamara provided very strong leadership. He set the agenda of the Bank, and it was a very focused agenda. He put poverty reduction very much on top of the agenda of the Bank. But more importantly, he was very effective in dealing with some of our major shareholders. I've had personal knowledge of how he dealt with some of our major shareholders on the issues of Vietnam and China. I think the Bank's true universal nature of today, the fact that we virtually include in our active members all countries of the world, with very few minor exceptions, is a tribute to the vision and

courage of McNamara. Many shareholders of the Bank, as well as some senior managers in the Bank, were very much against McNamara's effort in this regard. For example, it started with Vietnam, and as I said before, it was particularly difficult for McNamara because of his personal history,

Q: It was courageous also.

A: Absolutely, but he had the stature and the courage to stand up. There was some very intense pressure put on him by both some of his lieutenants as well as shareholders. I must say that I've never seen such quality since McNamara in any of the Presidents. The entry of China into the Bank was a major change for this institution. We became truly a global institution.

Q: That was in May 1980 when the Board approved that membership.

A: That's right. I think each of the Presidents of the Bank since then has had strengths and weaknesses. My perception is that Clausen was a very effective manager. He came from the private sector, but I think he found it very difficult to follow McNamara. He had a chip on his shoulder with regard to McNamara. I saw very clear instances of that when I traveled with him; he obviously was very sensitive to any mention of McNamara. He just could not reconcile himself to following such a great person. Conable, I think, was a politician, and I think he got the Bank into a lot of broader issues. I think he was well liked by many of our clients. I don't think, as compared to Clausen, who had managed large institutions, Conable had any experience in managing. It perhaps should not be surprising that he oversaw probably the biggest management disaster of the Bank, the 1987 reorganization. I think at one point Harvard Business School was going to do it as a case study of how not to

conduct a re-organization. I think Preston was a complete nonentity. My impression, which was sort of shared by many of my colleagues, is that he saw this as a retirement job. He wanted a social role in Washington, DC after his experience in New York with JP Morgan, and he let Ernie Stern run the Bank. Ernie has enormous strength, but he also has very serious weaknesses, and I think that was reflected very much in the Lew Preston era. Now, of course, Preston had also a number of personal tragedies of his own during his tenure, so perhaps he was preoccupied. And Jim, I think he has set some of the very important strategic directions of the Bank. I think the question is whether there is necessary follow-up in terms of creating new structure, new policy on HR, etc. I think what he did, for example, in creating the network, in decentralization, in Country Directors in the field, of using more national staff, making one staff policy, etc., these are initiatives that were extremely important and very commendable, but they're running into a lot of problems because there hasn't been enough follow through. So I think the organization has not followed through with the necessary infrastructure development and mechanisms to make those strategic priorities work.

Q: Would you say an inadequate translation of his ideas?

A: Many ideas, in fact, are not only inadequately translated, but I would say they became almost counterproductive. It has gone wrong, and it has not achieved the objective intended, simply because the necessary concomitant measures have not been introduced as I think he doesn't have a very strong management structure under him. I think Jim is a very smart person, but even in his investment banking days, he wasn't a manager. He was more of a visionary, a deal-maker, and he's very good at that. I mean, with either a President or Finance Minister, or the poorest village woman, he's

enormously effective in dealing and dialoguing with them. But how to translate his vision into actual policies and programs is very much lacking. The well-known personality problems of Jim Wolfensohn make it very difficult to create an effective management structure under him. It's a very demoralized Bank right now. Certain cultures of the Bank today are not very conducive to effective operation.

Q: Do you think that the agenda he set will survive him?

A: I don't know. I think so, because Jim is a good assessor of trends. As an investment banker you have to do that. You can't be creating your own trends. So I think most of the agenda such as, decentralization – one cannot say that it is a very personal thing. I mean, we were in the eighteenth century before Jim as far as decentralization was concerned. When you look at private corporations; when I mentioned the way we were organized to my colleagues at Morgan Stanley people were shocked. The state department would operate that way, but for an institution to work, like Morgan Stanley, General Electric, the way they decentralized . . . yes, so I think Jim was very good at assessing and responding to global trends, and so, I think it will survive, but it's tough because I think the issue is, what is the role of the Bank in the twenty-first century?

Q: Well, we are going to ask you that later.

A: I'm not going to be able to answer that question, but I think you need a president who has a clear idea of that.

Q: Well, we wanted to ask you, how do you see the evolving role of the Bank and its continued relevance on the global stage?

A: Just finishing up on the question of presidents, I think you need a combination of somebody who has vision and who is able to translate it in creating a management structure to implement that. I think McNamara had both of those. I think Jim is much better at the vision part and very weak at the management part. But, on the vision part, of course, I think we all know the issue is selectivity. But, if you talk to Jim about it, he will say, "Well, it's up to you guys, the manager below, to be much more selective." And he's right, but certainly he's much stronger in creating the vision than in creating the management structure to implement that and, you need both. I think McNamara was quite unique in the sense that he is renowned as a manager, his experience at Ford, and now obviously, from today's perspective, it's old-fashioned management, but at that time, in the 1960s and 1970s, he was a top management expert, not only as a manager himself in terms of theory and practice, but also he had a vision for the Bank, and his commitment to poverty. McNamara was a person who could speak about poverty and tears would come to his eyes. I mean, he was really passionate. He had an image of being a very cold and very number-driven man, largely gained because he appeared on television expounding about death counts in a very cold, inhuman way, but he's actually a very warm, passionate person. I had the good fortune immediately after he retired to spend, I think, three weeks traveling with him, just he and I in China because the Chinese government wanted to thank him for his efforts. In those three weeks I learned that he's an extremely human and passionate and emotional person. He can't speak on some of these issues like poverty and his own family without breaking down in tears, and that's certainly not the usual vision of McNamara. But I think it would be very hard, and I guess maybe now in today's

world we have more of a division of labor; you have managers and you have visionaries, and it's hard to find people who are both. And I must say, when you look at what's happening in the corporate world, that these so-called superstar corporate leaders such as Jack Welch and so on, are all being sort of second-guessed now and reexamined, and so many have now fallen and found to be corrupt and so on. First of all, there are two big issues here. One is, is there a role for the Bank in the twenty-first century? And, the second thing, are we going to be able to get a person who has the vision to define the Bank's role as well as be enough of a manager to create a management structure under him to implement it? I don't know, and I think for that reason, I would feel very uncertain that such a president exists. And you have also to remember that the job of the World Bank President is probably not as attractive as it was 15, 20 years ago. For instance, the role of the Bank with the capital market the way it is, and so on; our role is much diminished. I mean, are you going to get a truly great leader to come and head the Bank? Probably not!

Q: Now we can re-ask the question on, how do you see the evolving role of the Bank and its continued relevance on the global stage?

A: I think the Bank should have a continued, very important role in the world, because I think there are still very large areas of poverty-stricken populations, and I think the Bank has a very large role.

Q: You talked about diminished relevance.

A: But it's diminished in the way we are operating, in particular because we are not responding to the clients and we are doing it by our own agenda.

Q: So we don't necessarily have to have a diminished relevance?

A: No, but I think it will be a different role certainly than in the 1970s, but we haven't yet defined it, and we have struggled with this, as you said earlier, people who think we have to go back to basics while others think we ought to be involved in many different other things. I think we need to define our role.

Q: Well, during the recent Annual Meetings, Wolfensohn called for a 'new multilateralism'. The old multilateralism, he said, was government to government, and the new one must include the voices of the private sector and civil society. What is your view?

A: Yes, I certainly agree with that. I think it's inevitable because I think the private sector and civil society have much larger voices now. The only point that I would make there is let's be sure, when we talk about voices of the private sector and civil society, that we are not entirely dominated by them. Activists in many rich countries have greatly disproportionate voices. I think we have to be sure that it is the broader-based voices of private sector and civil society, not dominated by some who just happen to be a lot more vocal than others.

Q: What do you see as the Bank's long-term challenges?

A: Well, I guess it really is defining the role of the Bank in the twenty-first century. I personally feel that we still have a very important role as an intermediary of capital, and as intermediary of knowledge, but, who are our target clients? Maybe we need to be more selective even in the choice of clients. Also within the country, how do we be more selective? I think there are a lot of such issues.

Q: How does the Bank's diversity affect coherence in its decision-making?

A: I don't think diversity in any way adversely affects coherence. The problem in the Bank, in fact, is the tendency to have a dominant culture. I think many of us here, as we were saying earlier, believe that the culture has shifted to a system of managing upward and inward – disengagement from the client. Somehow, in the way we operate, we lack diversity. We all come from different parts and so on, but somehow we get overwhelmed by the Bank culture, and...

Q: Which transcends cultural diversity.

A: That's right, and so, if anything, I would be concerned not so much by our diversity, but by the fact that there seems to be a monoculture in the Bank, notwithstanding our original diversity, coming from different cultural and economic and social backgrounds. But somehow once we're in the Bank, we get swallowed up by its culture. Many of the people who know Bank staff are very taken by how dominated we are by the Bank. You go to a dinner party with Bank staff and it's all shop talk – there's almost no interest outside the Bank. We're so dominated by our work

Q: What risks, in your opinion, do field country staff run in gaining too local a perspective over time, since you spent a good deal of your tenure in the field, what is your perspective on that?

A: I think this is a view that has been expressed by some people. I think it's completely false. I don't see any rationale to lead us to expect that somebody sitting in Delhi would become native or lack objectivity or a global perspective as compared to somebody working on India but sitting in Washington. I must say, I'm of the view that

better information, with everything else being equal, leads to better decision making. Now, the advantage of being in the field is that there's better information. You understand what's going on. You have the day-to-day contact. I think that would lead to better decisions as a Country Director than if you were sitting in Washington. I don't think more information, and better information, will make you go native – quite the contrary. I think when you're there you can see a lot of what's going on underneath the surface. You can see the corruption, the poor governance, the sort of institutional witnesses, and so on, and I think you can be much more objective in addressing the issues. I think the risk is much greater if you are, let's say, working and are responsible for India for a very long time while sitting at headquarters, you see the needs and demands, but you don't see the underlying weaknesses involved. I mean, certainly I wouldn't necessarily argue that you're more likely to go native at headquarters than in the field, but I would say it's completely false to expect that because you're in the field you're more likely to go native or be soft on the country. And the other point, of course, is in the Bank, if anything, I think we have a lack of continuity. In the HR area, the Bank's tendency is to move people around, so not many of us are going to be in a country long enough to go native. The problem is, you've only begun to learn about the country and then you're transferred already. I've been fortunate in that I was five years in China and six years in India, but that's very exceptional. I think my tenure in India is the longest of any Country Director to date. For a country like India, I would have thought ten years should be a minimum, but certainly once I passed four and five, there were a lot of questions about whether I should be moving on. I think the previous policies in the Bank used to be three years

residence assignment. So, I think people tend to forget that when we go to a country, because we are global staff, we bring to that particular country an enormous amount of global knowledge and experience from other countries. Certainly, when I went to India, my weakness was not that I was too pro-India or knew too much about India, but, that I knew very little about India, however, my strength was that I knew about China and South-east Asia, and Africa.

Q: Our last question has to do with, what do you see as your major contribution to the Bank, and, at the same time, what have you learned from your experience at the Bank?

A. I will answer the second question first. I joined the Bank in my late twenties and retired from the Bank. So the Bank was virtually my entire professional life. Everything I have learned, professionally, I have learned from the Bank. Even my brief tenure in investment banking was a by-product of my Bank career.

It will be for others to determine what my major contribution to the Bank was, but, I can say what has been most satisfying to me personally. First, it was being able to spend my entire career on country work. Shortly after I joined the World Bank, I was on a plane to join the first economic mission to a newly independent Fiji. Thirty-two years later, I retired from the field office in New Delhi, India, and every year in between I was working directly with one or more countries. Second, I was able to spend most of my career in the field, even though I have been in managerial positions for more than twenty years. In fact, one of the statistics of which I am proudest is that over the last 17 years of my career in the Bank, from 1985 to 2002, I was only at headquarters for a little over 3 years. Thus in my career in the Bank, I have always served the clients directly, and for most of the time, I have lived and worked in the

clients' country. Third, I have been involved in many pioneering activities of the Bank. I was on the first economic missions to: Fiji, post-civil war Nigeria, unified Vietnam, and China. I was a member of the first Program Division to be located in the field, and one of the first Country Directors located in the field. And I was one of the first economists in the Bank to work on what is known today as transitional economies – economies moving from central planning to a market economy. Finally, a very large part of my career was spent working on three of the most populous and most important countries in the world: China, India and Nigeria. The population of these three countries represents a very large majority of the population to be served by the mandate of the World Bank. I feel very much that it was my privilege and honor to have had the opportunity during my career in the Bank to try and help improve the livelihood of the billions of people in these three countries, plus of course the other smaller countries I worked on.

Q: Well, thank you very much, Mr. Lim, for your invaluable contribution to the Bank's Oral History program.