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A CONVERSATION WITH RICHARD WESTEBBE

WASHINGTON, D.C.

January 25, 1988

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CONVERSATIONS ABOUT GEORGE WOODS
AND THE WORLD BANK

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Robert W. Oliver

OLIVER: This is Robert Oliver about to begin a conversation with Richard Westebbe. Dick, I think it's well to start by asking you to introduce yourself, say what you were doing before you came to the Bank, and then talk generally about your experiences in the Bank.

WESTEBBE: I came to the Bank in August, 1966, from a very unusual job that doesn't exist any longer. Between 1960 and 1966, I was what was called the Executive Director of the Foreign Trade Administration (FTA) in the Greek Government, which was an agency set up during the Marshall Plan at the request of the Congress to be sure that the use of the foreign exchange by the Greek Government would conform to useful purposes and would, in fact, be allocated through import licenses approved by the FTA. By 1960, the need for import licenses was vastly diminished, the economy was on the way to full recovery, but the Greek government had decided that it wanted to have a senior advisor to perform the remaining functions of this agency, which had a Greek staff in Washington and in Athens. Athens was the headquarters.

I had a deputy in the Greek embassy in Washington.

Basically the job was to program the remaining American aid and to act as an advisor to the government and the Bank of Greece. This consisted of the PL 480 programs, which I negotiated on behalf of the Greek government during the 1960-1966 period: defense support aid, which was given in support of Greece's extraordinary defense effort. (They were given economic aid to reduce the economic burden.) The most interesting part of the job was to act as economic advisor to the various economic ministers. The job was paid half by the Bank of Greece and half by the government itself. I worked closely with the Minister of Economic Coordination, of Commerce, of Industry, the central bank governor, and occasionally the Prime Minister.

OLIVER: Was there no IBRD component at all?

WESTEBBE: The IBRD hadn't lent to Greece. That's an interesting point that you raise. Greece was not eligible for IBRD lending because it was still in default on its external debts. One feature of this job was my first exposure to the IBRD. I remember discussing it on various times with the governor of the central bank and the deputy governor. (Actually the deputy governor was in charge of negotiations on the foreign debt.) The American foreign bondholder's council was very, very tough on the Greeks, writing very harsh reports about Greece's unwillingness to pay despite its recovery. The basic issue wasn't the unwillingess to pay, it was simply that the Greeks were in a politically difficult position. Although there was essentially a right-wing government in power during most of that period, the government felt that if it signed an agreement to settle with the American bondholders and if the same bondholders gave a more favorable agreement subsequently to the Yugoslavs, a communist government, they would be harshly criticized. The question was how to find a way out of it.

I was fortunate to be in a position to assist them in this, because, on one of my trips to New York, I talked to one of the big commercial bank's senior vice presidents. He said to me, "Why don't you go over to see the foreign bondholder counsel director, an ex professor. See if you can't see how to resolve the problem. I did that. The chap, of course, gave me the official position. I told him what the Greek problem was. I said, "Why don't we work out a formula which would satisfy both sides which is that they will settle with you on terms that you have already been offered, but that they will not settle finally. Either side will have the right to suspend the agreement in five years without any questions being asked. That way, if you sign a better deal with the Yugoslavs which you will obviously do, the Greeks could, if the deals becomes politically difficult, suspends theirs. At least they can make the case in Parliament that they haven't given away the store." He bought it. I went back and sold it to the governor of the central bank, who then told me also that that's excellent because in the meantime I will have purchased all these bonds on the market at something like 50 cents on the dollar anyway, and we won't be in debt in five years. So the issue becomes mute. That's about what happened.

OLIVER: Was there a go between in some sense between the World Bank and the borrowing government?

WESTEBBE: Yes there was. The reason this was a critical issue was that the World Bank was refusing to lend. George Woods was taking the position you have to settle these foreign debts. The Bank had a policy in this respect. It was in '64, the second time I came with the Greek Minister of Coordination and the Prime Minister. The Prime Minister was coming here to see President Johnson on Cyprus. I came along with his economic minister, which happened to be his son,Andreas Papendreaus. We visited George Woods. George Woods in that meeting made the point to Andreas. He said, "Look, I like what you are telling me. I accept your promise that you will settle the foreign debt within the foreseeable future, and on that basis I agree to start lending to Greece." That first loan was organized at that first session somewhere in the summer of '64 and then with the agreement I just described already in hand with the American Foreign Bondholders Council, it was easy to settle with the Europeans and the others. There was a model or precedent that everybody could follow.

OLIVER: But would George Woods have agreed to have taken you on so to speak in the absence of the go between between you and the World Bank?

WESTEBBE: Well, I don't think we would have been able to make the case or the commitment to settle it if we didn't know we had it in hand. He just would have said it is impossible to sign these things over night. They needed elaborate arrangements, texts, treaties and so forth. Andreas was able to do that because he knew he had the basis of the deal with the bondholder's council.

OLIVER: Was there a similar difficulty in arranging for the payment of bonds to other territories?

WESTEBBE: No, that in fact was a lot easier. The basic terms were the same as the Americans. The question of the Yugoslavs came up in both cases, and they couldn't sign any of the agreements as a result. There were two separate negotiations, one with the Europeans and one with the Americans. Essentially the same deal prevailed, though once we got the American bond holders to sign, the others fell in line. The Americans in fact were the tougher of the two.

OLIVER: Well I interrupted you.

WESTEBBE: Well, following this job was a fascinating, perhaps a unique experience for a professional economist because not only were you in charge of a staff of Greek civil servants who were programming this aid, issuing procurement authorizations. We were still signing some of the licenses. (About 10 percent of the imports were still licensed--essentially strategic goods and things of that sort.) But it had a much more interesting dimension which is essentially why the government of the Central Bank wanted to continue it after the Marshall Plan period had expired and well after Greece had achieved a remarkable recovery. The Minister of Coordination and the governor of the Central Bank wanted somebody in there who could give objective economic advice.

Greece had relatively few macroeconomists, and it had to be somebody who could operate this AID agency and who would not be

subject to pressures within Greece. That was another condition. The money that was mobilized was fairly significant for defense support, and the use of these funds had to be carefully understood. Furthermore, there were a number of ways in which people could have benefited if the wrong procedures were used and the wrong people were favored internally. I don't want to go into detail, but it was essentially that, from the outset, they didn't want to put a Greek under pressure to one group or another. As a result, I was by legislation a member of the Foreign Trade Board, which consisted of the Prime Minister, all the economic ministers and the governor of the central bank. I was officially a member because I held that job. The job, by the way, in legislation had to be held by an American hired by the Greek Government. The requirement for an American was put in by the Congress back in the Truman Doctrine days, but they had the right to hire and fire. It also meant that I had a veto of foreign trade policy decisions, because they needed a unanimous vote for every decision; any external procurement over $50,000 and had to be approved by the committee as well as any policy decision.

OLIVER: Did you have any occasion to exercise the veto?

WESTEBBE: I would never think of it. I kept trying to get the Minister of Coordination to change the legislation to remove me from this position, which obviously could have been subject of sharp attack by someone who wanted to say Why is this American this close to this government after so many years of freedom? He told me once (he was a superb member of the center right-wing party), "I'm not going to change the legislation. It would take me more trouble in parliament, and I've got other things on the agenda. And by the way, I have no problem, I trust you." I said, "Well, as you know my purpose here is to advise you on the decision not to veto it. I will sign anything you want, but I'll tell you what I think of it before I do." It was exactly that position which enabled me to get involved with a great many policy issues with which I think I might have made some difference. At least I got my point of view heard. They couldn't exclude it. I had to see the papers, I could therefore comment on them. I could see people and organize a consensus if I wanted to--one way or another.

Another thing it did, because I was in a position of inventing new things occasionally, when the Papendreau government came in in '64, after the first (let's say) peaceful change in the government in Greece since World War II, they came in with a new agenda for social reform, for economic policy and so forth. It was quite appealing. One of the things that Papendreau was interested in, having been a former minister of education in the '30s, was education. A major problem in Greek education was in the mountains, where a considerable amount of people still lived who suffered from malnutritian. These were poor areas. Nutritional levels were low, children were coming to school hungry; they were not getting adequate diets.

Discussing this with a number of people in the non-governmental community and with others in the Greek establishment, I and others thought it was time we did something about it. I discovered that,

through my involvement with PL480, we could get the food free, completely outside the existing program. So I organized a national program and presented it to the then Prime Minister. He bought it enthusiastically. The next day he gave a national speech endorsing it. We put together a program with his Ministry of Education, with great difficulty by the way because bureaucrats were flatly opposed to mixing feeding children with education. Bureaucrats did not like to hear that their schools were used to feed people. They were supposed only to educate people. But we worked it out. Three to four hundred thousand kids were being fed by the time I left Greece in 1966. The people who opposed it, such as the director of general education, called me into his office a year after it was under way. "You know I was flatly opposed to this, and I am a close friend of the Prime Minister. I have to congratulate you. You were right. It works and it was exactly the right thing to do." I felt very good about that.

Anyway, from Greece I came looking for a job in '66. The political situation was getting poisonous, the king had thrown out the Papendreau government, a succession of governments were coming in every three weeks. It was certainly not an environment in which economic advice was useful and valued, and it was time to leave. It had been six years. I had had to renew my contract every year after the first two years. The Federal Reserve wanted me to come back. I had to make a decision, because they were not going to keep the job open for me forever. It was for career reasons.

Maybe you would like me to say a word about the Fed job? I can quickly cover that. From '56 through '60, I worked at the Federal Reserve Board after doing my graduate work at Harvard. I was in the international division. I worked on the Sterling Area, I was the expert on foreign exchange markets, the UK economy, and various associated other countries. I did economic analysis for the Board reporting on current events and doing applied research. It was from that position (William McChesey Martin was Chairman) that he was asked by the Governor of the Central Bank in Greece to find someone to fill the job I just described. I was the one he suggested with the idea I would stay two years and come back. As I said, it ended up as six years.

I came to the Bank in '66, having explored the options for a future career in private banking, the Fed or the World Bank. Frankly I felt upon examining all these things that it wasn't really a question of money. Money was pretty much the same everywhere. The issue was really what you wanted to do. I looked over the Bank and I said, "There is the critical area for the next generation. They are really dealing with the important problems." (I did not then anticipate the crisis of the dollar and other issues the Fed subsequently had to handle which were in fact done by the people who took the job I was offered.) They were dealing with the critical questions about what you do about the Third World. It seemed to me that that was an area I wanted to get into, so I joined the World Bank.

The first job I had was in the then economics department run by Andy Kamarck, under the general supervision of Irving Friedman.

Before accepting this position, I was offered two options: to work on the India desk as assistant to Greg Votaw or to go in the Economics Department. As an economist, I was persuaded by the argument that economists should be in this new field of activity which was then being built up rapidly. I was essentially an advisor in the Economics Department. I was supposed to be one of the several who were supposed to lead missions for the operational departments on a wide geographic basis, learn about the world, be able to make intercountry comparisons, and contribute to the applied research of the department by writing about the experiences. In the end I was the only one appointed to this staff.

OLIVER: This was what year?

WESTEBBE: This was '66. Essentially it was the job I had, from '66 to '68, until Robert McNamara became President. My first mission was to the Philippines in '66. As a member of the mission for two weeks, I kind of had to find my way in the Philippines until the mission chief showed up. We wrote a report which was a basis for reestablishing Bank lending under the then new Marcos regime. Subsequently, I was offered a job in Mauritania, which was an interesting case in point.

OLIVER: Excuse me. I take it you became officially a part of an Area Department?

WESTEBBE: No, I was always lent from the Economics Department. This was the idea--that these senior people would be lent to an Area Department. The Africa Department was looking for someone to head a mission to Mauritania . What was interesting about the mission was that I was told it was the first time the Bank had been asked by an African country for policy advice on its future strategy. Mauritania, through its Executive Director, Kochman, had gone to George Woods and said, "Look, we're not happy with what we've had since the colonial period. It's not working. The country is on its back. All we've got is an iron mine. Nothing is developing. We need a fresh look at this. The President has made a decision that this should be done."

The request was made to Woods, filtered down to the Africa Department. They said, "Here is an opportunity, not just a problem, an opportunity to show that we can do something in Africa other than give project loans, particularly a country which has opened its doors for this purpose."

I don't know how my name came up, but I was available, so I went. My French wasn't what it should have been, but it was adequate. I remember getting off the plane in Mauritania and being received by a newspaper correspondent with a tape recorder like this in his hand and being asked all sorts of complicated questions in French, which I hope that I answered coherently. It was a bit frightening.

The mission was very serious. We spent three months in one of the more difficult places to live I have ever been in. It was essentially a sandbox. In those days it was 15,000 people, a capital created in the middle of the dessert. Very harsh conditions. I had upwards of 15 people on that mission each of whom came for two or three weeks. Some stayed throughout the three months, but most of

them came for short periods to do the sector or specialized parts of the report, which became a four-year plan for Mauritania. What we did was to look at the basic problem at the macro level, the key sectoral policy issues including education, rural development and transport. We wrote up sections of this. Each time we would come to a sector with a draft conclusions and options, I would take the person involved and go see the President who was very closely involved in this work. He received me regularly. We would discuss it with him: what would go, what wouldn't go, and what his views were. Before we wrote anything, we already knew the boundaries within which policy could move.

OLIVER: I take it by the president, you mean George Woods?

WESTEBBE: No, this was the President of Mauritania. George Woods had endorsed the mission, but he was in no way involved.

OLIVER: I understand.

WESTEBBE: I, of course, was a bit perplexed to discover that the Bank would send people out into a place like this where people had diarrhea continuously and other diseases for three months and sort of lose them, but, in fact, there wasn't any choice. The place had a telephone to Paris, and that was the only communication. To do the job right, you really had to just finish it. You couldn't just keep going back and forth.

To make a long story short, this report was very much liked by the Mauritanians, because it not only related the strategy and policies in each sector, it suggested the specific projects which responded to the needs of that sector. It included internal rates of return and general costs. It covered a very wide spectrum. We had hoped (those of us on this mission) that this would be a guideline to the Bank on how to lend to Mauritania, but the Bank knew virtually nothing at this point, having only invested in the iron mine earlier. This turned out not to be a well founded hope. Reorganization of the Africa Department, new people coming in, and my reassignment elsewhere ensued. I did go back to Mauritania once to check on the progress of the report, but basically the Bank carried out a very minimal lending program there. It took up a few of the ideas, one of which was the Gorgol Dam which was built ten years later, well after the costs had gone up substantially. It was done with great difficulty and after the major droughts had occurred. In short this was my first independent mission. It was exciting. The Bank published the report. It was of great interest to the President of the country and to senior policy makers.

An amusing anecdote occurred on the occasion when the government decided to give George Woods a medal as a result of this work. He had retired by this time. It was in '68. I believe there was a reception at the Mauritania Embassy in New York at the UN headquarters. George Woods was there. I was invited along with a few others who had worked on Mauritania. George was given his medal. After his elaborate speech, he turned to me (we were having drinks in the corner) and he said "What are you doing now?" I said, "I am working on the Economics of Urbanization." He responded, "What the hell is that?"

OLIVER: Was this one of the earliest projects in Africa south of the

Sahara? Or was it proceeded by quite a bit?

WESTEBBE: A number of projects had been done. We had done isolated, individual projects in various countries. We didn't know very much about the economies. We had done economic reports on a number of countries. They were introductory, what we call survey reports just to find out what the basic facts were. This was the first time, I think, that we took a comprehensive look at a country with a view to guiding its policies, its investment program on both a macro and in all its social basis, and doing so in full collaboration with them. What was important to them was that it wasn't designed for the Bank itself. I had hoped the Bank would be a little bit more active in pursuing the openings it had made, but it simply was not in the cards in those days. The African lending program wasn't that big, and the people simply weren't there to do it.

OLIVER: What was the particular project in this case?

WESTEBBE: You mean this report? This report was effectively technical assistance to the country, but it also was intended to guide us. I think it eventually did, but it took an awfully long time.

OLIVER: Had there been an agency established in East Africa, in Nairobi, specially at the time?

WESTEBBE: I believe there was an organization in Nairobi of former agricultural officers under the ex British colonial service who were then grouped together to act as a kind of a cadre to help agricultural development. We also had an office in Abidjan called the Regional Office of West Africa. It was essentially a projects office, designed to coordinate work on project supervision. Some appraisals were done. They did feeder roads for agriculture. They did education in the early days. No general economics work was done there.

My last job in the Economic's Department was a mission to Morocco in '68. I headed the mission, I went there three times. It was also a mission designed to examine the case for further Bank lending, particularly to take a long look at the dams which had been built and the economic policies that had been pursued. That was a quick report, the first and only one I and two other mission members I had written in 30 days, because it had to be out in time for a consultative group. Unfortunately, the conclusion was sufficiently harsh about the performance of the Moraccan government that they decided not to have the consultative group. I suspect they were right.

Then McNamara came in. He essentially reorganized the Economics complex. He reorganized it around issues that were of interest to him. The three divisions that he created that were new were Urbanization, Industralization, and Population. These were areas that earlier did not have a specific research focus. Of course, some of the subjects had been covered by others. Urbanization was a particularly new area though.

OLIVER: Just an aside on the Economics of Industralization Division. Was this because IFC had really taken over the private industrial work so that it was an attempt at public enterprise, or was it mixed up across the board?

WESTEBBE: I think the IFC role was generally regarded as doing

specific investment through private enterprises. There had been very little work done on national economic policy dealing with industralization. During this period I remember, we had a debate in the Bank in which the Bank moved towards financing public industrial development banks. At one time we would only finance private ones with guarantees. The Bank moved in the direction of recognizing the fact that the governments were going to have development banks and they would hold majority shares or own them, and we had to still be involved.

OLIVER: Was this a direct contradiction to the Woods' years?

WESTEBBE: I don't think so, I think it was more of a evolution. He might have resisted if he had been there. The point was we had to do something in this field. Industralization was clearly part of the development future of these countries, and we didn't know much about it. In fact, when I think of what we are doing now compared with what we were doing then, there is certainly a marked change. We are dealing with such things as harmonizing effective protection rates, exchange rates, basic shifts in interest rate policy, monetary policy and capital markets. But we'll come to that. Our scope today is so much wider. It was essentially seen in those days as a way of supporting project lending, but there were policy implications.

I was then appointed Chief of the Economics of Urbanization Division. It was quite clear when you look at the shift in populations that there would be a) rapid urbanization in the Third World and b) employment opportunities would have to be found outside of agriculture. We were facing a massive demographic shift to which policy had to respond. It was clear from the processes of development that a part would have to be in industry, if only to transform the agriculture products that the country were capable of producing, adding more local value, replacing imports, and developing new forms of exports. We weren't thinking of creating Switzerlands in Africa, but we certainly were thinking of an intermediate stage which Africa had not taken very many steps to reach at that stage. They were still primarily export producers. The problem did not concern only Africa. The economics of urbanization covered the world. It's function was to develop an analysis of the problem for the Bank as a whole, to define the kinds of policy issues that were involved, and to indicate which options existed for lending.

Out of this work, which I did for two years, '68-'70, came what McNamara really wanted: a White Paper which he could use as the Bank's policy statement on this subject. He got that, the essence of which was reflected in an article I wrote for Finance and Development in 1970. The Board adopted it after a special board session I led on this whole subject of urbanization. I wrote a section for The Annual Report of 1970 where the new policy was set forth. The policy has since been pursued along these initial lines. It covers things such as the work in the informal sector, sites and services, infrastructure, urban planning, and urban financial issues. A main purpose was to get Bank operations to recognize the urban economy as an economic unit in terms of location as opposed to simply a sector of

the nation. The whole question of secondary cities was raised. Essentially, the question of defining the role of the urban economy in the national economy and the kind of planning, resource allocation, and resource mobilization issues this raised. I think Bank lending did very much follow this initial approach which we had outlined. A lot more work was done, with a good deal more depth. In summary, I think that was one of the most exciting things I did in the Bank. It was a brand new field.

One must say that it also awakened a considerable amount of opposition from those who believed a good project was all you needed and did not see that the context within which you did the project was relevant. It was very hard to sell this to straight projects people. Further, since the work had started in what was an Economics Department, it awakened an enormous amount of bureaucratic resistance from, those within the projects complex who were interested in controlling this new sector. Very quickly they wanted to take it over. A great deal of internal conflict arose at higher levels which never was fully resolved. Ultimately the projects people won out, because an analytical unit with three people was hardly in a position to continue to dominate a field in which they could mobilize a couple of hundred. They should have had the operational side, but the idea of meshing the two in terms of the analysis and operations was not very well accomplished in the initial stage. Partly it was personalities; partly it was just the nature of the bureaucratic framework.

Some even blamed McNamara for having organized things so as to create tension. He never told me that. I must say that during this period, I had a number of long meetings with Mr. McNamara in his office. He would sit in his shirt sleeves, and I would explain where we were coming out on the various ideas and policies we were working on. This led to the White Paper on Urbanization which he liked. In these meetings, I tried to understand his views and present him with some of the policy considerations relevant to decisions he was considering and directions we could take. Some of the areas he obviously agreed with. He liked what we were saying, particularly on the Sites and Services phenomenon--the idea that housing could almost be self financed at a lower income level as opposed to something for which you needed vast public programs and foreign aid.

Burke Knapp got involved in it. I remember one episode, or series of episodes, when the US housing finance agencies (lobbies is a better word), representing all the savings and loan institutions in the country came to us and wanted the Bank to finance a secondary market in mortgages in less developed countries, especially Latin America, which would guarantee the money they would put in these countries. I was the one who had to do the analysis of this. Burke Knapp adopted the conclusions that I offered to him, saying, "We have no business in this field. There is no point of externalizing a debt which should be entirely internal. There is a case for seed money, for savings and loan institutions being set up, but the savings should come internally and should be recycled internally. You should not go

into foreign debt to buy housing." This was not well received by this industry, but that was the Bank's decision and still is if I'm not mistaken.

McNamara's interest was broader. He was much more interested in the development impacts of urbanization. I remember we discussed Northeast Brazil vs. San Paulo once. I was one of those who favored doing the belt way on the grounds that San Paulo was the largest creator of employment in the country. It was a tremendous engine of growth. It was highly successful. The newspapers had pages of want ads for people, and the people were flowing in from the Northeast. When you went into the Northeast, you couldn't see much potential up there to duplicate San Paulo. His view, nevertheless, was that we had to try, so he rejected the beltway as something that would be inappropriate. He wanted to put more money into the Northeast. I don't know exactly what happened to all those investments, but I suspect that the returns were lower. We probably didn't keep too many people there, because there simply wasn't anything to do there. It's a very poorly endowed area.

OLIVER: I take it that the beltway was built in San Paulo. Doesn't this illustrate the proposition that if it can be financed by other means, it shouldn't be done with Bank financing.

WESTEBBE: You can say that about a lot of things, I suppose. The World Bank isn't essential. We are not the lender of the last resort as we were once described. We don't just come in when everybody else refuses. There was a question of taking a leadership role in a major area requiring infrastructure. San Paulo was a great success, but it also was a transport horror. It would take sometimes two to three hours between appointments just to drive around the city.

They had a first class state government who knew exactly what they were doing. In fact I found all over Brazil the highest level of technocratic groups I've ever met, but it was a question of whether we were in on the cutting edge or not. We would not have been asked to finance the whole beltway, nor the subsequent subway. We should have been involved in some part of it, it seemed to me as part of our country strategy. It was a philosophical question. I don't think McNamara believed we should have been doing urban infrastructure and roads for the fancy cars and other uses of the middle class, but of course it was this middle class and all the other transport associated with industralization which were creating the jobs for the poor. San Paulo rèpresented an accumulation of capital, of entrepreneuria talent, of external economies, of a thriving urban center. They had this huge Volkswagen plant, as an example, which already had produced a 1 million cars by that time. So in a sense, it was a success story. It doesn't mean it has to be the only one, but it was one which badly needed investment. Our role could have been productive. Our own regional staff was fully in favor of it. I thought they were right.

When Hollis Chenery came in, he wasn't at all sure what urbanization was. He took over the role of Irving Friedman as chief economist of the Bank. He decided that he didn't think he want to concentrate on urbanization. So the unit was abandoned. There was a

lot of reorganization. New ideas came forward, and I moved to the Africa region at that time which was just before the Reorganization of '72. It was still a single Africa department. I did a lot of work in those early days on Gabon, Cameroon, and then Chad. My report on Chad was published by the Bank. It was essentially opening up an economy which at that point still hadn't gone through the worst of the Civil War.

I learned quite a bit about Africa. I learned about the nuts and bolts of African governments, the kinds of problems they faced, how they were organized. We were not at the stage much more than a project lending institution. We were not doing program lending, and yet our economic reports were the basis of a dialogue with the countries on their policies.

I led a mission in Gabon which was particularly difficult. It was a very rich country, huge forests, Manganese resources, uranium, even a potential for iron ore. The government wanted to build an expensive railroad to this iron ore deposit. Our analysis kept showing, over a number of years, that while it would make sense if the iron ore ever got exploited, it never made sense without it, since there wasn't enough alternative traffic to justify the railroad. The government on the other hand, not only wanted to build the railroad for the iron ore, but wanted to run it around the south of the country toward the manganese area and, in effect, unify the country by a railroad instead of running roads. The president was particularly persuaded that he needed to do this for political reasons. I think the case was more that he had promised to do this and couldn't find a way to back out of it. Anyway, he had a lot of free resources at his disposal--the increasing oil prices of '73, and the existing forestry resources. He wanted to mobilize a lot of capital, and the World Bank's leadership in that capital for the railroad would have been essential.

I had several meetings with him. At some point I told him that unless he could straighten out his financial act and stop his immense amount of foreign borrowing, we would consider him uncreditworthy. It was a point that he didn't forget because later, when we did reject the railroad on project grounds, he mentioned to the people that told him. "Who was that fellow who talked to me about my budget?" That led to a break in relations with Gabon effectively for about 7 or 8 years. We have now just resumed lending through a structural adjustment loan. Once again they managed to toss away the huge rents from the oil price rises of '79.

OLIVER: Can you illustrate structural adjustment lending?

WESTEBBE: This developed gradually. We have to be clear that this was a dramatic new initiative for the Bank. It was first announced in the Belgrade Annual Meeting in '79, but it was also a logical follow up on what we had been doing earlier. It wasn't something that we weren't prepared to do, as I mentioned earlier. We had already done economic reports on a number of countries, I did an awful lot of work in the mid '70s on the Ivory Coast, I had been in Zaire from late '74 through '75 as Chief of the Planning Advisory Team in the Zaire presidency.

We can come back to that. It was rather a particular assignment which was both interesting and somewhat unsatisfying.

After this, I recall coming back to the region in early '76. I had hepititis and was out for about 3 months. This was the period when the big cocoa boom took place. It had followed an earlier boom in sugar and phosphates. A number of African countries earned enormous rents suddenly, well beyond anything they could plan for. In the Ivory Coast, which was illustrative of this process because it was one of the first places we did structural adjustment lending in Africa, these huge resources enabled them to something like triple in real terms their public investment program as well as to borrow for this purpose enormous amounts of money from commercial banks. Officially these banks were lined up outside the doors of the Minister of Finance and the President. "Sign here and I'll give you anything you want on any terms." They never asked questions about what the money went for, nor did they look ahead to see whether the coffee prices sustaining the creditworthiness would in fact validate that creditworthiness over time.

As a result of the work I did in early '76 in the Ivory Coast, I talked to the Minister of Finance and his staff as the rapid buildup of the debt took place. This was early 1977. In mid '77 we wrote a very harsh memo to the government, warning them that, as a result of my mission, we would have difficulty making a large lending program available if they should continue these policies. It was signed by the Vice President, Roger Chaufornier. The Director was de la

Renandiere, a very talented operational director of the then West Africa Department. In early 1988, we went to see the Minister of Finance who had been appointed during the government reshuffe of mid 1977. The President had centralized all decisions in his hands, and he was going ahead with this incredible investment program, buying everything including color television systems for the north of the country; he even wanted to build an international hospital in his home village.

OLIVER: Was he using Bank money?

WESTEBBE: No, no, this was stabilization fund money and that which he had borrowed. It would have been less difficult to accept if it had been his own money. He might have wasted it, but at least he wouldn't have mortgaged the future of his country. Lending was done not only the by banks but by bilateral official agencies as well. The very countries who are now screaming about African malfeasances were lending on suppliers credits for most anything in sight. We went to see the President in early '78. We made a case, de la Renandiere and I, that the country could become uncreditworthy for future Bank lending. This was a country whose exports were some multiple of the imports due to the still high prices in effect, but we said the prices were coming down and you won't be able to pay the debt. We can't engage the Bank to pour in hard money which we will never see again. At that point he, being a very wise man and wanting to leave something of a legacy other than bankruptcy, sharply cut the investment program. He brought it down to more reasonable levels, cancelled most of these

white elephants that hadn't already been started, particularly the six sugar mills that would be built with foreign credits. Six were already under contract, I think. Cancelling the six was a major achievement. Those sugar mills were a disaster and still are.

OLIVER: Well, was any part of the money Bank money?

WESTEBBE: No, most of the projects we did were fairly meritorious, well thought out, isolated, but nevertheless could be justified in their own terms. and would have positive rates of return. Things like the palm oil investments we made were very good. We created a whole new sector there.

OLIVER: This was Bank money?

WESTEBBE: Yes, the Bank did four palm oil projects. We refused to do some projects where rice would have been involved, because we didn't like their rice pricing policy. They had not given adequate incentives through the late seventies to the coffee and cocoa producers. We had a project in the center for coffee and cocoa. We did a lot of work on infrastructure, building up roads and various kinds of electricity systems and so forth, but it was a project lending program. We did a basic report in '76--it was actually written in '74, by Bos den vinder. This basic report looked backward and forward and said, looking back from the past you did very well--seven and eight real percent growth--but the basis for this growth may not be there in the future. You'll have to find alternatives. We took quite an in-depth look at the situation. I'll come back to that in a minute. I'm it to address your SAL question. It was the first place that I was thoroughly involved in the SAL process.

To make a long story short, the country did run out of money by 1980. Prices did come down. The debt overhang became enormous. Real interest rates were very high on international markets. A lot of this debt was denominated in variable interest rates from commercial banks, something over 60 percent of it. The growth rate of the OECD countries declined sharply because of the way in which the West fought inflation--by raising interest rates and cutting back demand. Prices fell. Terms of trade shifted. By mid 1980 anyway, the Ivory Coast was in fact broke. We had already started this initiative of structural adjustment lending. At the meetings of '79, we announced that it could be done. Yugoslavia was an early candidate, Senegal was the first that we did, and very quickly after that came the Ivory Coast.

They were addressing a financial crisis and yet there was this underlying problem that the old bases of growth, even if they hadn't had a financial problem, would have required readjusting the economy in any event. How to do it was much more difficult. There were huge claims on government which couldn't be met. They were having difficulty paying salaries, let alone the debt that was due and the current financing needed to maintain the high levels of public spending. Mr. de la Renandiere got a call from a high up official in the Ivory Coast government who asked, "Can you help us?" He replied, "We can't do anything in two or three months. The Bank can't work that fast even with structural adjustment. However, if you authorize

us, we'll ask if the Monetary Fund would be willing to receive a request." He did that, and then de la Rosiene told him, "Yes, we will receive a request and immediately send a mission."

From that intervention was born the Extended Fund Facility mission of November 1980. I headed the Bank mission. We worked very closely together. They were dealing with the stabilization, budgetary, monetary side, We were dealing with the structural questions of producing incentive pricing, the elements of restoring growth, cleaning up the public enterprise sector, which was major source of losses, and so forth. The reason we were able to move so fast and so effectively was that we knew a lot about the country. We had done a considerable amount of economic work. We had a very solid basis. We had been in a constant dialogue with this government since '76 on its economic policies. In '79, we even had a signed deal with the Minister of Finance limiting his foreign borrowing, which was something the Fund later did in almost every country.

OLIVER: What was the structural adjustment involved?

WESTEBBE: The critical question for us was the public finances. We put in discipline. Monetary policy was made consistent with the need of the economy to restrain the rate of inflation, but the structural adjustment we were working on was particularly based on the fact that we had to structurally reduce the waste in government. One of the ways we would do that was through the public enterprises. We started a series of diagnostic studies to cut the losses very sharply. If you carry it through, you will see the transfer from government to public enterprises practically disappear.

We started a systematic series of increases in prices to the producing tradeable sectors. The idea was to shift incentives towards tradeables and away from the non tradeables. During the boom of the '70s, the non tradeable sectors had built up very sharply as a result of heavy protection and expanded government. Performance criteria were applied to the capacity to maintain this spending. We started what we called the first of a series of structural changes in the economy. The shift in prices, for example. The first price increase we had in '81. Farmers had been cutting the trees and growing bananas. Now they went back to growing palm oil. We did it with coffee, cocoa, rubber, all of which were diversification sectors as well as for the old bases of growth. This allowed output to be sustained. Productivity increases took place alongside traditional projects.

OLIVER: How could projects have been started when the economy was declared to be uncreditworthy?

WESTEBBE: We never declared it uncreditworthy. We got them to change the program in '78, so we stopped the further rise in these questionable investments. What had already taken place in '78 was so enormous that just absorbing it became the major problem of the 1980s. The huge build up in debts and the rescheduling of these debts further exacerbated the problem, because the debts were then pushed forward and the interest on that new higher rescheduled debt became a major burden. We are now facing that problem today. It has not gone away.

OLIVER: Has the growth rate . . .?

WESTEBBE: The growth rate has picked up. In '85-'86. there were very high growth rates 4 or 5 percent; '87 was somewhat less. A rise in international cocoa prices took place. There were unfavorable weather conditions, but an underlying growth resumed. The first three or four years of the adjustment process there were negative, or zero growth rates. Its now been two or three years of positive growth which gives some hope. The problem is that the finances of the government are in hopeless condition because all the former surpluses in coffee and cocoa disappeared. They are now lower, both the dollar and prices. The commodities are denominated in dollars. We are grappling with this problem today in the Ivory Coast: how to make it solvant, how to make it creditworthy, how we can continue lending to the Ivory Coast if the outlook isn't any better and if the debt overhang is as high it is. Lot of discussion is going on in Paris and London clubs in just in these terms.

The structural adjustment program has a number of features. I would say the first is to clean up the public sector. In the Ivory Coast, the most urgent thing we did in 1980-81 was to assure adequate financing for the three agriculture and executing agencies in the south center and north, agencies which provided all the extension work and inputs for the main crops of the three areas. They were going broke because the government wasn't financing them. The cotton agency wasn't getting paid for its cotton. The organization handling palm oil and rubber was not being funded. Unless you kept these inputs flowing--these seeds, fertilizers, insecticides, and marketing services, these crops would disappear.

OLIVER: I take it that exports increased faster than GNP.

WESTEBBE: Oh yes, yes. Export growth has been fairly satisfactory, but its one thing to export in real terms, it's another when in fact the prices are continuously lower.

They had their first shock in '83 in the middle of the program. There was another 15 percent decline in the terms of trade. Another one took place last year--equally bad. In each case this deprives the public sector of the revenues needed to support producer prices. With an overvalued franc (tied to the french-franc parity and with the increasing decline of the US dollar) the competitiveness of the economy is at issue. That's essentially the issue which we were facing.

Our structural adjustment allows us to deal with that in several ways.. By having cleaned up the efficiency of government--by reducing its overall cost, you've compressed the public sector. You've released resources to the private sector. You've produced incentives in the private sector, both in terms of agriculture, which I've mentioned, but also in industry. We had a full reform of the tariff system, for example. We harmonized effective protection rates across industrial sub sectors. We provided credit for the central bank to lend to industries for restructuring. It hasn't been fully used yet. We then decided, because of the overvalued exchange rate, we not only had to have the tariff rates harmonized, we needed a surtax on imports. We put a subsidy on exports which was equal to the level of

effective protection at home, so that industries would have an equal chance to produce what domestic or foreign markets produce.

OLIVER: Why not just change the exchange rate?

WESTEBBE: Yes, well that's an issue which the Bank and the Fund, particularly the Fund, is unwilling to do, because of the pressure of the French--the fear the French have that it might break up their monetary union, something we don't want to do. We now think it is a critical issue, and we are addressing it informally in the Bank, but we can't talk about it publically. The issue is complicated as a devaluation would be difficult to implement in 13 countries at once, all requiring counting specific monetary increases. A failure to control inflation after devaluation would bring into question the stability of a new parity and perhaps the survival of the union.

The pressure is enormous. It is creating public finance difficulties for the countries concerned. It's creating competitiveness problems. French West Africa is becoming less and less competitive. In some cases, they are subsidizing crops. We had a meeting this morning on CAR to discover that we are subsidizing cotton and coffee with government money, because with the existing parity of producer prices there is no way you could keep exporting. In the Ivory Coast, we have put an export subsidy on industry.

Under SAL 3 for the first time, we introduced it on agricultural products other than coffee and cocoa--at 20 percent of the effective protection rates. In January of this year, both industry and agriculture were raised by 30 percent to reflect the new parity of the dollar. Maybe it will have to be done again. These second-best measures are clearly second best. They are decreasingly effective as the rates go up. They can be evaded. They are difficult to organize. They cost money. Nevertheless, government studies show that both inelastic exports and investments have risen in sectors receiving no subsidy.

Structural adjustment involves the public sector as well as the basic incentive structure of the economy. A reorganized public investment program has to be focussed much more on the economic and social priorities, of the country. It may involve very fundamental institutional changes within the country as well. Basic institutions which controlled some of these economies since independence had to be dismantled or reduced in size, refocussed if you will. You had to privatize whole parts of the secondary sector. The Ivory Coast has already sold off something like 25-30 firms that the government owned. They are going to sell off a lot of the rest. Togo has done the same thing--to private enterprise, private interests, foreign and domestic, mainly foreign.

OLIVER: Can it be assumed that the external market is essentially perfectly elastic?

WESTEBBE: In what sense?

OLIVER: One can sell as much as one wishes at a constant price.

WESTEBBE: No, you can't. That's a good point. You can offer things for sale, but there may not be too many buyers, particularly in a West Africa area, as, where we just said, the exchange rate is increasingly

overvalued-- while governments have liberalized their economies, removed price controls and quantitative restrictions and progressively opened these economies to the free play of market forces. Nevertheless, the environment within which these economies live will influence markets . . . . There are after all many micro economies totally subject to world conditions. If world conditions are bad, they are going to suffer. The demand for their products is a function of the demand in the Western World--O.E.C.D. countries and Japan. So that has been a problem. You are trying to privatize in a period when growth isn't very significant. Yet some countries have succeeded. The Ivory Coast sold at least 25 firms, Togo about 10 or 11. Togo is just negotiating a big deal with the Koreans for a major textile mill to be sold to them for the export US market. If that goes through, it could create 5,000 jobs in total. The Koreans are avoiding the quotas of the US.

OLIVER: Where are we in terms of the Ivory Coast and Gabon and Togo?

WESTEBBE: I wanted to go back to the Ivory Coast for just a second, because I think some of the more interesting work I did was there. In 73-74, I headed a mission again. It was a unique thing. I've always had the privilege in the Bank of doing something different from the usual thing.

We did a big report, which was called a special report on unemployment. It actually followed from the urbanization work. That's why I got involved in it. We wanted to look at what happened in a successful economy to the urban-rural balance. What were the motivations for migration? How were people received in the cities? What kind of problems, economic and social, arose as a consequence? What was the role of secondary cities? What strategy might be followed? How do agriculture, education, and industry all fit into this? What is the role of the formal-informal sector?

We did an analysis of all these things in a big, three-volume, grey-covered report which the Bank did in 1974. This report proceeded the '75 ongoing plan. One interesting consequence of it was that, whereas the Ivorians had always taken the position that the slums of Abidjan didn't belong there and they should be systematically erased, the pace of urbanization has been rapid. A lot of poor people had come in and set up an informal economy any way they could. But the government was systematically destroying these on the grounds they were unsightly and people there didn't have the education or income to live in Abidjan. They didn't realize that they came from rural areas precisely because they didn't have a future there either.

The report changed that policy, not because we wrote it but because there were people in the government who agreed with us and who used the report as support for their view. One had to make this formal economy work, not destroy it. It was a major reception center for migration. It was a major source of income generation and employment. It ultimately became part of the private, modern sector. This shift has taken place in the '70s in the Ivory Coast. What is interesting is that it was the first time the World Bank had ever studied the informal sector. It has now become much more popular to

talk about it, but it was the first time the systematic analysis was done, bringing all its facets to bear on one country.

A second innovative piece of policy concerned the role of finance in development. The question we were raising in '79 was, What was the role of finance in the development of a real economy? I've already said they have had a 7-8 percent real growth rate. They had developed a comprehensive banking system. They had developed all kinds of secondary institutions, an embryo capital market if you will, leasing companies, investment companies, almost a chaotic growth. The question really was, Is there something here that we missed in the Ivory Coast that needs to be addressed? Why was the country, for example, borrowing so much money abroad when it clearly had enormous internal financial mobilization capacity if you just looked at what was going on in the banking system.

We did a very elaborate analysis including a flow of funds analysis of the period '60-'70 and concluded that the lack of a capital market and the alternative instruments in which people could invest was a critical constraint that was due in part to the way the central bank rules were operated, the way system was put together. Most of the intermediation took place in Europe, particularly in France. Money would flow out. They'd borrow long term in France and developing countries thereby building up their foreign debt. The question was how to internalize part of that. What kind of market instruments, what kind of institutions would have to be created? How could government finances be better organized in the future? They hadn't done badly in the past by taxing agriculture in part, but this was no longer going to be possible in the '80s and the '90s. Maybe new bases could be organized for the mobilization of savings in support of development. In particular, we raised that point in '79-80. It was rather prophetic, I think, that we concluded that the debt-service ratio wouldn't permit them to continue to borrow abroad. This was basic constraint. The Ivory Coast would be uncreditworthy for the huge sums that they had been borrowing. They needed to think in terms of an alternative.

That was an exciting report which got a lot of attention. We still are pursuing those issues and trying to develop within countries like the Ivory Coast mechanisms for mobilizing capital. Some of the issues about interest rates and taxes on interest have been reflected in these conditions. Now what else have I been doing?

Ivory Coast wasn't the only country in which I was involved. I was involved in the 1st, 2nd, and now 3rd SALS on Togo. I led the missions. I did very interesting early work on Guinea Bissau, a newly emerging autonomous country in the sense that it was not a member of a monetary zone. We started out with a reconstruction import credit about 1983, a decision which had been made at the regional management level. Guinea Bissau was a country which had adopted a full Marxist model after independence about 1976 and had been in straight decline ever since: the rationing of foreign exchange, production going through parallel markets, declining employment, an overbloated public sector, total confusion in the public accounts--even a fair amount of

corruption. The country decided it needed a basic shift towards something more efficient, toward something that would create some criteria for decision making and restoring the private sector.

It is a relatively rich country with a lot of diversity in agriculture, one of the few places in Africa where you can grow rice competitively with Thailand. It has cashew nuts, it has ground nuts, it has fruit, it has just about everything. We had decided that the reconstruction import credit which was designed to provide some imports to support the initial devaluation of the currency was really not enough. We didn't have enough conditionality. It wasn't sweeping enough in its impact on government finances, on the credit system. Something more elaborate was wanted. The Fund didn't want to go in there. They did an initial credit tranche in '83, and they discovered they didn't have the means to monitor it. They decided not to repeat it. The government in any case violated the criteria by borrowing too much from the central bank. We decided we needed a structural adjustment loan. This was in early '84 I went over and appraised the operation and got the government to sign a letter of development policy for a SAL. I came back home and the decision was made: We were instead going to do sector lending, agricultural sectoral lending.

To make a long story short . . . . (It illustrates from the point of view of Bank history how sometimes basic mistakes could be made when people are making general decisions which don't apply to individual countries.) The feeling had been growing that there was too much macro work. We needed to get back to the sectors, get closer to the ground. Our agricultural staff spent an enormous number of staff weeks doing an agriculture section loan only to discover, what we had repeatedly pointed out, that you couldn't launch an agricultural sector loan when all the prices are distorted, when all the markets are controlled by the government, and when the farmers have no incentive to produce because they can't buy anything if you don't have any foreign exchange. Until you got the exchange rate right, you got the complimentary measures on the credit side, <u>and</u> you opened the economy up to get rid of the state stores, the sector loan wouldn't work. In due course another vice president would come in and cancel the sector loan, with all the losses that involved, the time invested. We went to a SAL that is now working. I haven't followed it in the last few months but at least it seems to be working. I've heard exports have picked up by some multiple in the course of one year. Investment and agriculture is at a record high. So many talented people have gone into private activities that government is having trouble recruiting civil servants.

Another interesting case which I think illustrates the way decisions are sometimes made in the Bank--sometimes they are right and sometimes they are not . . . . St. Tans was a similar case to Guinea Bissau. It's an island off the West Coast of Gabon, which had followed the Marxist model to the point of having an economy in virtually total decline by 1986 when I first went there in the fall. A little paradise, but a poor one as the president told me. Indeed half the population were living on food aid from the world food

program and US aid. The Russians had advisors in the security services, the Cubans were there, and the Angolans had soldiers. The East Germans had built a beer brewery which used half the power generated on the island and was losing money like mad. A brick factory was doing the same. A fishing company had boats too large to catch the kind of fish available in local waters. It was a disaster.

It took a long time to get a dialogue going with them. Years ago they even had refused to talk to us. Finally they came to us and said, "We need a structural adjustment program. We heard about it. We want to know what it is and how we can become eligible. I got involved with putting this together. Again, it was one of the most exciting things I've done, for the simple reason that again we faced a case where the Fund said, as they had said in Guinea Bissau, "We can't go into this place. We don't have the staff, and it is an adjustment problem, longer term, not a stabilization problem. Why don't you take the lead? We'll support you with staff, but we're not going to push a standby operation to our board as there is no case for it, and the SAF (structural adjustment facility) program has no conditionality. Therefore you do it."

I took two missions out, one preappraisal, one appraisal. The economy was basically organized around cocoa plantations which had produced something like 15 thousand tons in the last best year in the '70s. Back in the '20s it was 25,000 tons. It was now down to 4,000 tons. It was still maintaining enormous numbers of state employees on the nationalized plantations, most of whom were not producing anything-

-mostly clerks. There was an overbloated central government borrowing from the central bank in order to cover bills. The exchange rate was highly overvalued, everything was rationed, the stores were empty. In short, so there was desperation in paradise.

When we got there we understood immediately that the problem was somewhat like in Guinea Bissau. If you were going to conduct a full reform, change the exchange rates, bring under control all the sources of overvaluation, you had to bring goods into the economy. The President told me before December of '86, "Yes, I have Christmas coming. You may not realize this, but this country is really not part of Africa. We have been under 450 years of Portuguese control and our consumption patterns are those of Portugal. If I don't get $2,000,000 worth of cheese, wine and other food by December, I'm not going to survive." Indeed he had to get money to do that.

We appraised the operation last May. To get the goods in the market in time, we used an unused line of credit which hadn't been used for general repairs and maintenance. We made available a $2,000,000 advance out of that credit to enable the government to place immediate orders for the goods. When the SAL was passed with all the features I've discussed, it would pick up necessary financing. Our strategy included a cocoa project for which we had already started the preparatory work with the French Caisse Central and the African Development Bank. Those three were launched at the same time. They were fully integrated. We calculated the new rate of exchange at a level to ensure that the average cocoa plantation would be profitable

at the new rate of exchange thereby giving an incentive for the worse ones to reduce costs and the best ones to make higher profits. We organized these plantations around foreign companies that were hired to run them, although they still remain government owned.

A second phase would be government doing the redistribution of land no longer suitable for cocoa into food crops with an organized system of extension work. That was exciting, because, for the first time, we saw the Bank take on the entire panoply of macro reforms: exchange rates, public finance, credit policy--all combined with sector policies and projects. Of course you can do this in a microcosm: there are only a 100,000 people. But it was an intellectually challenging exercise, which I gather is going reasonably well.

OLIVER: Should I ask you more questions? Has anything not been asked that I should have asked?

WESTEBBE: May I suggest that I think a little bit about that. I've got to get back to the urgent matters of the day. I think we have covered the main bases, but there may be some areas that I could maybe say something additional worth preserving on the tape.

OLIVER: Well, if you think of any additional things, I hope you'll let me know. Thank you very much.